DOCUMENT RESUME

ED 181 838 HE 012 260

TITLE	Reauthorization of The Higher Education Act and Related Measures, Part 6. Hearings Before the Subcommittee on Postsecondary Education of the Committee on Education and Labor, House of Representatives, Ninety-Sixth Congress, First Session (May 30, 21, June 5, 7, 19, August 1 and 2, 1979).
INSTITUTION	Congress of the U.S., Washington, D.C. House Committee on Education and Labor.
PUB DATE	Aug 79
NOTE	1,260p.; For related documents, see HE 011 930, HE 012 083-084, HE 012 115-116, HE 012 261-263; some pages may not reproduce well due to small print
AVAILABLE FROM	Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402
EDRS PRICE	MF10 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	College Students: Credit (Finance): Eligibility: Family Income: Federal Aid: *Federal Legislation: Government School Relationship: *Hearings: *Higher Education: Interest: Loan Repayment; Parental Financial Contribution: Student Employment; *Student Financial Aid: *Student Loan Programs; Work Study Programs
IDENTIFIERS	*Guaranteed Student Loan Program: Higher Education Act Title IV: Middle Income Student Assistance Act: National Defense Education Act 1958: *National Direct Student Loan: National Student Loan Reform Act 1979

ABSTRACT

Hearings held before the U.S. House Subcommittee on Postsecondary Education regarding reauthorization of the Higher Education Act and related measures are presented. Proposals are considered for improving the Guaranteed Student Loan (GSL) program and the National Direct Student Loan (NDSL) program, both authorized by Title IV of the Higher Education Act. The NDSL program provides loans to students on the basis of need by schools using 90 percent federal capital. The GSL program provides federal reinsurance on loans made to students primarily by commercial lenders using private capital. Testimonies are presented by representatives of student organizations, student financial aid administrators, state higher education executive officers, the banking community, members of Congress, representatives of the Student Loan Marketing Association, and representatives of associations of postsecondary institutions. Testimony is also presented on the college work-study program, through which the federal government provides support for part-time work for students, based on financial aid. The hearings also concern U.S. Representative Fenwick's bill, H.R. 4507, which is designed to provide for the exchange of information on student loan defaulters and credit bureaus. The Kennedy-Bellmon bill, Senate bill 1600, The National Student Loan Reform Act of 1979, is also considered. Senate 1600 proposes dramatic and fundamental changes in the federal student loan programs. (SW)

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REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6

HEARINGS

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

HEARINGS HELD IN WASHINGTON, D.C.
ON MAY 30, 31, JUNE 5, 7, 19, AUGUST 1, AND 2, 1979

Printed for the use of the Committee on Education and Labor

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REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

WEDNESDAY, MAY 30, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room 2257, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Gaydos, Ratchford, Buchanan, and Jeffords.

Staff present: Thomas R. Wolanin, staff director; Patricia F. Rissler, deputy staff director; William Clohan, minority assistant education counsel; Jennifer W. Vance, minority legislative associate.

Mr. Ford. The Subcommittee on Postsecondary Education will come to order for the purpose of continuing hearings on the reauthorization of the Higher Education Act and related measures. I believe this will be our 15th or 16th day of hearings on reauthorization.

Today's hearing will continue our consideration of the student financial assistance programs authorized by title IV of the Higher Education Act. Thus far, in our consideration of title IV, the subcommittee has held 3 days of hearings on general issues that cut across all of the title IV programs, 3 days of hearings on the grant programs—basic grants, supplemental educational opportunity grants, and the State student incentive grants—and a field hearing at Oberlin College which focused on the impact of the student aid programs at independent liberal arts colleges.

This morning, and in our next two hearings, we will consider the student loan programs—the Guaranteed Student Loan Program and the National Direct Student Loan Program.

The NDSL program was created by the National Defense Education Act of 1958, and it is the oldest of our Federal student financial aid programs. Loans are made to students on the basis of need by schools using 90 percent Federal capital. Students can borrow up to a total of $10,000 for undergraduate and graduate studies. Students repay the loans with 3 percent interest, and there are opportunities for deferring or canceling repayment if the student undertakes certain types of public service.

Since 1958, the NDSL program has provided nearly $6 billion in loans to more than 5 million students.

The Guaranteed Student Loan Program was created by the Higher Education Act of 1965. Loans are made to students primarily by commercial lenders using private capital. In 39 States, the loans are guaranteed through State-guarantee agencies and the Federal Government reinsures the loans against default, death, or disability of the borrower. In the remaining States, the Federal Government insures the loans directly. The Federal Government also pays the student's 7 percent interest while the student is in school as well as paying a special allowance to the lender to make these loans as attractive as other lending opportunities.

With the passage of the Middle Income Student Assistance Act, all students, regardless of their family income, became eligible for the in-school interest subsidy.

Students can borrow up to a total of $15,000 for graduate and undergraduate studies. Students repay the loans with 7 percent interest and the Federal Government continues to pay the special allowance, currently 6¼ percent, to the lenders.

Since 1965, the Guaranteed Student Loan Program has provided approximately 12 million loans to students. These loans have had a total value of nearly $14 billion, and the total cost to the Federal Government has been close to $4 billion.

The Student Loan Marketing Association, Sallie Mae, provides a secondary market for student loans.

The authorization for the NDSL program expires in this Congress. The authorization for the GSL program extends through fiscal year 1981. While action with respect to GSL is not required in this Congress, both of these student loan programs have been the subject of considerable comment and criticism. In this reauthorization, I believe that the committee must seriously consider proposals for improving both of the programs. I consider that to be one of the understatements of these hearings because we continue unfairly to see a steady pattern of criticism of student borrowers and loan programs based on some preconceived notion that there are people conniving in some fashion to rip off their Government and cheat the system. There seems to be an inexhaustible supply of critics. Barely a day goes by that I do not have someone telling me of something appearing in the newspaper someplace which casts doubt on the wisdom of expenditure of Federal funds for the program.

Our witnesses today will include representatives of student organizations, law schools, and student financial aid administrators.

We will start off first with the representative from CBO, Mr. Alfred Fitt, an old friend from the State of Michigan.

Without objection your prepared statement will be inserted in full at this point in the record and you can proceed to underline and amplify or add to it as you see fit.

STATEMENT OF ALFRED FITT, CONGRESSIONAL BUDGET OFFICE

[Prepared statement of Mr. Fitt follows:]

Statement of Alfred B. Fitt
General Counsel, Congressional Budget Office

Mr. Chairman and members of the committee, my name is Alfred Fitt. I am General Counsel of the Congressional Budget Office. I am delighted to be here in response to the chairman's invitation, and on behalf of CBO.

The general topic today is student loans. While there may be some lingering ideological or philosophical objections to the whole concept of helping students by making debtors out of them, the public policy of the United States for the last twenty-one years has been to make it ever easier for college students to secure education loans.

The student loan business in this country is now a gigantic business. This fiscal year alone there will be nearly $3 billion worth of student borrowing, with practically all of the loan capital supplied or guaranteed by the federal government, and directly or indirectly paid for by federal taxpayers. By this fall, there should be close to $8 billion in guaranteed student loans outstanding, plus almost another $5 billion in the National Direct Student Loan program. On-budget federal costs to support student loans are approaching $1.5 billion annually.

Given such figures, the question for years to come is unlikely to be whether there will be student loan programs.

Rather, the broad question will be how to improve the existing programs.

The present set of mechanisms by which the federal government intervenes in the student loan business has been criticized on a number of grounds, and not just on account of the very large costs involved. Despite frequent amendment of student loan legislation, a loan is not yet available to every student who is qualified for and in need of a loan. Different interest rates are charged to borrowers whose circumstances appear in many cases to be the same. The default rates are disturbingly high. The systems themselves are vexingly cumbersome to all the participants---the borrowers, the lenders, the educational institutions and the state and federal agencies involved.

My testimony this morning will include a brief history of the two major federal student loan programs, and how they work, followed by a discussion of some of the issues the Congress may wish to consider during the current reauthorization cycle. CBO is working on an in-depth analysis of the government's student loan programs. So my statement today should be regarded as preliminary.

The history begins with the National Defense Education Act of 1958. That law authorized the appropriation of $295 million over the next four years, to provide capital for student loans to be made by colleges, with the institutions putting up $1 for each $9 in capital from the federal government. The 1958 law fixed the life of the program at eight years; only borrowers during the first four years were to be eligible for loans in the second four years. The interest rate to be paid by borrowers after they left school was 3 percent, a compromise figure between differing House and Senate versions, but approximately equal to the then Treasury cost of money.

But the program was not stopped in 1966. Though every president since President Eisenhower has recommended a stop, the Congress has instead always reauthorized it and provided increasingly generous annual appropriations, leveling off at about $310 million in recent years. The accumulated federal capital contribution is now almost exactly $4 billion, and the one-tenth share put up by institutions means that nearly $4.5 billion is invested. When the Congress has finished legislating for fiscal year 1980, the likely total in the National Direct Student Loan program will approach $5 billion.

There are about 3,400 educational institutions who are NDSL lenders, and this academic year, according to

Administration estimates, there will be 874,000 borrowers. The interest rate remains what it was when the law was first passed, zero while in school and 3 percent thereafter.

At the end of June 1978, over $700 million in outstanding NDSL loans were in default. That sum is more than a sixth of all the capital ever put into the program. The total today probably exceeds three-quarters of a billion dollars, spread among 900,000 or more former students. Some observers have blamed the rising NDSL default on the 1972 decision to allow proprietary institutions to become lenders under the program. But though such institutions now make up 30 percent of all NDSL lenders, their accumulated share of the federal capital is only $132 million---or less than 3.7 percent---so the great bulk of the default problem remains with the 2,400 non-profit institutions.

After twenty years of depending on colleges and universities to be diligent and expert in collecting the federal money they had lent to their students---with the results I have just mentioned---the U.S. Office of Education this spring has begun a pilot program to take over the defaulted NDSL paper. It is too early to know whether the effort will cost less than the amounts collected.

Viewed in isolation, the NDSL program has much to commend it. The lending decisions are made in financial aid offices, so the availability of the loan---and its size---can depend on informed estimates of need. The borrowing transaction itself is quick, simple and straightforward, with only the student and his institution involved. And of course, a loan at 3 percent is a popular one among those who must borrow for their college expenses.

But NDSL loans are not available universally. There are thousands of postsecondary institutions that do not participate in the program, so their student bodies are excluded from it. Furthermore, those who do participate have shown that overall they are not very good at collecting on those loans when the time comes. The NDSL default rate is 17.4 percent.

Furthermore, some observers question the propriety of the very low interest rate on NDSLs, asserting that not only is so large a subsidy unnecessary---in that it has no apparent effect on the decision to attend---but that it is distributed mainly by chance---that is, that luck more than anything else determines whether a student borrower must pay 3 percent rather than 7 percent for his loan after leaving school.

The counter-argument is made that NDSL monies are reserved for specially needy borrowers. If this is so, the facts to prove it have never been gathered. The statistics on the family income distributions of borrowers under the 7 percent Guaranteed Student Loan Program are neither recent nor comprehensive, so there is a one-hand clapping problem when making comparisons with the income distributions of NDSL borrowers. For the latter, there are statistics showing that a great many colleges make NDSL loans to students from families that cannot fairly be classified as poor. For example, in fiscal year 1977, 41 percent of undergraduate dependent students who got NDSLs came from families with 1975 incomes above $12,000---when $12,000 was more than the median income for all American families.

Since all borrowers---NDSL or GSL---pay zero interest while they are students, the difference in interest rates only becomes real after they have left school. But there have apparently never been any studies of comparative incomes of NDSL and GSL borrowers once they enter repayment status. For all that we can tell, the extra subsidy for the NDSL borrower is just a $100 million a year gift that some young people get after leaving college and others do not.

The much larger Guaranteed Student Loan Program became law in 1965. The law provided that for states with student loan guaranty agencies, the federal government would cover 80 percent of the state's losses in guaranteeing education loans that students would obtain from banks and other commercial lending institutions. It was hoped that such a shared guaranty would bring private capital to the student loan market, and at an interest rate of 6 percent or less, which would be paid by the federal government for borrowers who came from families with incomes under $15,000, so long as the borrower was in school.

But the 1965 expectations were not realized. Not all the states joined in, so the federal government became a 100 percent guarantor for lenders in the non-participating states.

Then it soon turned out that the standard 6 percent interest rate was not high enough to attract private capital. It was boosted to 7 percent.

By 1969 it was obvious that 7 percent was insufficient, so in that year Congress legislated a "special allowance", meaning a bonus bringing the effective interest rate up to

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a maximum of 10 percent (depending on quarterly fluctuations in government borrowing costs), with the difference above 7 percent payable from the federal Treasury.

Three years later, at the behest of the banks, Congress created the Student Loan Marketing Association---Sallie Mae. The function of Sallie Mae is to provide a secondary market in student loans. In layman's terms, what Sallie Mae does is two things: 1) it buys student loans from banks and other lenders, thereby becoming the owner of the loan and the one responsible for collecting it when due, and 2) it lends money to banks, up to 80 percent of the face value of the student loans made by that bank, with those loans being the collateral to ensure that Sallie Mae will be repaid. In either case, the effect is that the bank's funds are no longer tied up in its student loan portfolio, and the funds received from Sallie Mae can be turned into more student loans or other kinds of investments a bank may want to make.

Sallie Mae is declared by its 1972 enabling legislation to be a "Government-sponsored private corporation". It is owned by stockholders, who put up about $25 million for their stock, and who must be either financial or educational institutions. The stockholders control 14 seats on the board of directors, and the President of the United States appoints another seven. In order to enable Sallie Mae to be able to buy student loans, and to lend money against them, it was given 10 years of power to borrow from the federal Treasury, subject to the approval of the Secretary of HEW, but without any statutory limit. The corporation has borrowed about $1 billion on that basis, and according to the President's fiscal year 1980 budget, will have borrowed $1.75 billion from the Treasury by October 1, 1980. Thus, about 98 percent of Sallie Mae's current resources have been supplied by the federal government. A year or so from now, the federal share will approach 99 percent.

In 1976 it developed that the maximum 10 percent in combined interest and "special allowance" was too low, so Congress raised the ceiling to 12 percent (averaged over any four consecutive quarters). That same year, the in-school interest subsidy was extended to borrowers with family incomes up to about $31,000 adjusted gross income. In 1978, the family income ceiling was taken off altogether.

From 1965 through last September, the GSL program totalled about $13 billion in loans, of which $5.2 billion had been repaid, another $1.1 billion in defaulted loans had been redeemed by the federal government under its guaranty commitment, and $6.8 billion were still outstanding. In the first six months of this fiscal year---that is, through March 31, 1979---loan dollar volume is running 38 percent ahead of the same period last year, and the number of borrowers is up by 28 percent. (The President had budgeted for increases of 21 and 10 percent, respectively.) On-budget GSL program costs now exceed $1 billion a year, and the default rate is about 14 percent.

The immediate future of the GSL program is difficult to predict. The high cost of government borrowing in the last few quarters has forced the special allowance against its statutory ceiling, but the actual effects of the formula will not be felt until July---when the combined interest and special allowance must drop to 11 percent, compared to the 13.25 percent rate payable this quarter. If the present ceiling formula is retained, there will be strong downward pressures on the inclination of banks to make new student loans, just when there seem to be extraordinary upward pressures in the demand for such loans.

Viewed originally as an ingenious and inexpensive way to attract private sector capital to the student loan business, the GSL program has gone through piecemeal alterations that have transformed it into a system much more costly than a direct federal loan program, with the higher costs not redounding to the benefit of student borrowers, but rather to the benefit of the financial institutions that make the loans.

The transformation occurred in two steps. The first was the enactment of the special allowance, which had the effect of guaranteeing the GSL lenders an interest rate 3.5 percentage points above the Treasury's short-run borrowing costs. Since a loan can be serviced for about 1.0 percentage point, the special allowance arguably means that the government is paying around three times more to the banks than it would cost to run a direct federal student loan program.

When interest rates decline from their current highs, as they no doubt eventually will, the differential paid to GSL lenders under the law will nevertheless remain constant. They will continue to receive $35 more per year for each $1,000 of loaned principal than it would cost the government to borrow the same amount.

The second step in the transformation came with the creation of Sallie Mae and its 10-year grant of access to the U.S. Treasury. Put in simplest terms, the existence of

Sallie Mae allows a bank to make a student loan with "private sector" capital and then trade in the loan for Sallie Mae capital. Since Sallie Mae has gotten about 98 percent of its capital from the Treasury, the actual effect of the transaction is that capital borrowed by the federal government replaces whatever "private sector" capital was involved.

Sallie Mae not only injects federal capital into the student loan system through its loan purchase program; it also does so by lending money at bargain rates to banks, who in turn relend that money to students. The 2.5 percentage point differential between a bank's cost of borrowing from Sallie Mae and its return from the federal Treasury for relending that money has the effect of raising the bank's gross rate of return well above the nominal 13.25 percent currently in effect.

Recently, the state direct lending agencies have discovered the advantages of dealing with Sallie Mae. They get their initial capital from public funds, of course, either appropriated or borrowed. After they have loaned out the funds so raised, they can sell the notes to Sallie Mae and relend the proceeds to more students.

Both the state and Sallie Mae profit on the deal, because the borrowing cost of the former is typically less than 7 percent and for the latter, about 10 percent, while the return to each is the familiar 13.25 percent, paid from appropriated federal funds. The state bondholders and the Treasury eventually get paid back as the student borrowers repay their loans. If any of those borrowers defaults---as surely some will---Congress appropriates enough to cover every penny of defaulted principal and missed interest owed. In all the foregoing, there is no "private sector" capital at all, as that phrase is usually defined, and nothing is at risk: the real burden is squarely and solely on the federal taxpayer.

I want to emphasize that the examples I have just been using are considerably over-simplified. Neither banks nor state lending agencies sell their whole student loan portfolios to Sallie Mae. Lenders and Sallie Mae make various one-time small charges in connection with the papers they pass back and forth. The cost of servicing a student loan may be more---and it may be less---than 1.0 percentage point per $1,000 of principal per year, i.e., $10 per year. It depends on whether the borrower is still in school, or in the grace period, or in actual repayment status, and upon the total he has borrowed, for it costs no more to service a $2,000 loan (the average size of a GSL this year) than a $1,000 loan. Finally, unless something is done about the statutory cap on the special allowance, or unless the cost of money immediately and unexpectedly declines, the rates of return for GSL lenders will be lower than in the examples.

But every over-simplification aside, the basic point remains the same: The Guaranteed Student Loan Program, as modified over time, bears no real resemblance to the program originally conceived. Instead of attracting private capital to the student loan market solely on the strength of a federal guaranty against any loss, the Treasury now pays about 13 percent for all capital entering the system, even though the same capital would cost less than 10 percent if the government borrowed it directly. Moreover, about one-sixth of all GSL capital can be traced to the federal government. One federal office loans the money out to Sallie Mae at 10 percent, which passes it on to the GSL lenders at 11 percent, and another federal office pays those lenders 13 percent for relending the government's money to students.

Before turning to a discussion of possible changes in the present system, I want to lay out the assumptions that have guided our analysis.

First, the sole object of federal intervention in the student loan business is to help people pay the cost of attending educational institutions. If the necessary side effects are to stimulate business and profits for banks, or to enable state governments to engage in arbitrage at federal expense, or to provide employment in federal, state, academic and other bureaucracies, so be it. But we must not forget that the side effects are just what the name implies; there is no public policy goal in keeping them.

Second, we do and should care about the cost of the route by which a dollar travels from the public and into the hands of a student borrower. If it costs more for that dollar to travel through the federal Treasury on its way to the student than if it merely travels from depositor to bank to borrower, then all other things being equal, the dollar should take the second route rather than the first---and vice versa.

Third, the particular goals of federal intervention are:

- To assure that all qualified students in need of an educational loan are able to obtain one, and that repayment arrangements are managable when the borrowers leave school.
- To the extent that student borrowers must be subsidized, to give the subsidies on a fair and explicable basis.

- To structure the program in the most effective and efficient possible manner, so that it is least costly, least vulnerable to abuse, and least complicated for students and the institutions they attend.

There are two quite different cost decisions that Congress makes in connection with student loan programs. The first has to do with the cost of the system itself, which includes the cost of capital, of originating loans and of servicing those loans. It is these system costs with which our analysis is mainly concerned. The second kind of cost decision is with respect to how much of the system costs---whatever they are---should be borne by student borrowers. While the two kinds of decisions are clearly related, they are also clearly independent. The goal for system costs should be to make them as low as possible. The goal for borrower subsidies is another matter; it depends on subjective judgments about which generations should bear what portions of postsecondary education costs, and within generations, how much the college-going group should be subsidized compared to the non-college-going group. My comments today on this second kind of decision will be quite limited.

It appears to us that the student loan system costs under the present arrangements are considerably higher than they need to be, and despite the fact that the federal government is paying more than is necessary, students are still not assured of being able to obtain the loans they need.

Basically, the system costs are now equal to the government's cost of borrowing all the capital loaned to students, plus 3.5 percent a year on that capital, plus losses from defaults. Since the government's borrowing costs per dollar will not be significantly affected no matter how the student loan programs are structured, the only parts of the system costs worth scrutinizing for possible savings are the 3.5 percent allowance and the default costs.

The real purpose of the 3.5 percent allowance is to reimburse GSL lenders for their origination and servicing costs and to allow a reasonable profit on their activity. But some portion of the allowance, although the amounts are still probably small in a relative sense, is going to finance state arbitrage gains. Even if that issue is ignored, there still remains the question of whether the government could obtain student loan origination and servicing for an annual cost of less than 3.5 percent of the capital in the system.

Our preliminary conclusion is that origination and servicing of the GSL program can be obtained for substantially less than 3.5 percent---that is to say, for less than the $280 million a year now paid on that account.

Considering origination costs first, they now include for every guaranteed loan the participation of both a lending institution and an educational institution. But since the government is paying all the costs of putting up the capital, the role of the bank in such a loan is actually superfluous. The loan can just as well be originated by the educational institution alone.

Secondly, it is demonstrable that servicing costs are well below 3.5 percent of the capital being serviced. Sallie Mae has servicing contracts with four banking institutions and one state agency. The costs range from about $11 per year for borrowers who are still in school to a high of $27 per year for borrowers in repayment status.

If the government were the owner of the student notes, it too could contract out for loan servicing, presumably on terms at least as favorable as those negotiated by Sallie Mae. In short, it would pay $11 to $27 a year instead of $70 a year on the average guaranteed student loan now being made.

The remaining element of the current system cost is the loss from defaults. The long-run costs involved are difficult to estimate with any precision. While claims paid on defaulted GSLs are a known amount---about $200 million last year---it is impossible to state how much the government will eventually collect from the debtors whose defaults gave rise to the claims, just as it cannot yet be known how much the government will realize from its current effort to obtain payment from NDSL defaulters. But it does seem safe to predict that default losses will decline in proportion to the amount of effort the government---with its superior ability to locate defaulters---puts into the task. Whether there will be a net budget gain from the government's efforts remains to be seen. But so long as the collection responsibility is spread among thousands upon thousands of educational and commercial lending institutions, the default rate is likely to remain at a level most observers would find unsatisfactory.

All the foregoing suggests that it would be useful for the Congress to consider reshaping the system to acknowledge the reality of the government's present role in raising the necessary capital. One possibility would be to federalize Sallie Mae, to have it be the conduit by which the funds would flow to state lending agencies, who would be the retailers, so to speak, in dealing with the educational institutions that would orginate all student loans. There are many other ways in which the system could be restructured to the same end.

I will conclude this statement with a brief discussion of the borrower subsidies in the present student loan systems. As I mentioned earlier, there does not appear to be a sound analytical basis for continuing to have one program with a 3 percent charge and another with 7 percent. Indeed, the differential introduces questions both of fairness and practicality, as well as of cost. The fairness issue arises because the effect of the differential is that students in like circumstances are treated in an unlike fashion. The practicality issue comes about because, with two different interest rates, it is virtually impossible to consolidate loans when---as is often the case---a borrower has both a GSL and an NDSL when he reaches repayment status. Without suggesting what the interest rate ought to be, whether 7 percent or something else, there ought to be just one basic rate.

My second comment grows out of last fall's legislation that extended the in-school interest subsidy to every GSL borrower, irrespective of family income. We cannot yet know the costs and program implications of that change, but they may turn out to be severe, with costs rising when loans are readily available, and lower income borrowers crowded out when loans are rationed. It is probable that a great many families with liquidity problems in financing their childrens' college costs, but who are fully able and willing to pay, say 7 percent, for the privilege of stretching those costs over time, will arrange to have their children take out the interest free loans. The Congress might well consider adopting an explicit program for such families, with the interest subsidized for those who fell below a stated income level, or who have already qualified for any other need-based aid, and 7 percent loans for those who choose not to supply family income information.

Finally, I want to re-emphasize that the short-run outlook for the GSL program is extremely clouded. When the impact of the special allowance ceiling occurs a month or so from now, you may be asked to turn aside from your deliberations about the long-run shape of student loan programs and do something quickly about the short-run shape.

Mr. Chairman, that concludes my prepared statement.

Mr. FITT. Thank you, Mr. Chairman. I will only read parts of the statement and then answer such questions as the subcommittee may have.

The student loan business in this country is now a gigantic business. This fiscal year alone there will be nearly $3 billion worth of student borrowing, with practically all of the loan capital supplied or guaranteed by the Federal Government, and directly or indirectly paid for by Federal taxpayers. By this fall, there should be close to $8 billion in guaranteed student loans outstanding, plus almost another $5 billion in the national direct student loan program. On-budget Federal costs to support student loans are approaching $1.5 billion annually.

My testimony this morning will include a brief history of the two major Federal student loan programs, and how they work, followed by a discussion of some of the issues the Congress may wish to consider during the current reauthorization cycle. CBO is working on an in-depth analysis of the Government's student loan programs. So my statement today should be regarded as preliminary. My statement will also involve some fairly complicated material. If there is anything that does not seem to be clear as I go along, I would welcome interruptions. I have been immersed in this for months and I may skip over things on the assumption people can follow me when that is not a good assumption.

The history begins with the National Defense Education Act of 1958. That law authorized the appropriation of $295 million over the next 4 years, to provide capital for student loans to be made by colleges, with the institutions putting up $1 for each $9 in capital from the Federal Government. The 1958 law fixed the life of the program at 8 years; only borrowers during the first 4 years were to be eligible for loans in the second 4 years.

But the program was not stopped in 1966. When the Congress has finished legislating for fiscal year 1980, the likely total in the national direct student loan program will approach $5 billion.

There are about 3,400 educational institutions who are NDSL lenders, and this academic year, according to administration estimates, there will be 874,000 borrowers. The interest rate remains what it was when the law was first passed, zero while in school and 3 percent thereafter.

At the end of June 1978, over $700 million in outstanding NDSL loans were in default. That sum is more than a sixth of all the capital ever put into the program. The total today probably exceeds three-quarters of a billion dollars, spread among 900,000 or more former students.

After 20 years of depending on colleges and universities to be diligent and expert in collecting the Federal money they had lent to their students—with the results I have just mentioned—the U.S. Office of Education this spring has begun a pilot program to take over the defaulted NDSL paper. It is too early to know whether the effort will cost less than the amounts collected.

Viewed in isolation, the NDSL program has much to commend it. The lending decisions are made in financial aid offices, so the availability of the loan—and its size—can depend on informed estimates of need. The borrowing transaction itself is quick, simple, and straightforward, with only the student and the institution involved. And of course, a loan at 3 percent is a popular one among those who must borrow for their college expenses.

But NDSL loans are not available universally. There are thousands of postsecondary institutions that do not participate in the program, so their student bodies are excluded from it. Furthermore, those who do participate have shown that overall they are not very good at collecting on those loans when the time comes. The NDSL default rate is 17.4 percent.

Furthermore, some observers question the propriety of the very low-interest rate on NDSL's, asserting that not only is so large a subsidy unnecessary—in that it has no apparent effect on the decision to attend—but that it is distributed mainly by chance: That is, that luck more than anything else determines whether a student borrower must pay 3 percent rather than 7 percent for his loan after leaving school.

The counterargument is made that NDSL moneys are reserved for specially needy borrowers. If this is so, the facts to prove it have never been gathered. The statistics on the family income distributions of borrowers under the 7-percent guaranteed student loan program are neither recent nor comprehensive, so there is a one-hand clapping problem when making comparisons with the income distributions of NDSL borrowers. For the latter, there are statistics showing that a great many colleges make NDSL loans to students from families that cannot fairly be classified as poor. For example, in fiscal year 1977, 41 percent of undergraduate dependent students who got NDSL's came from families with 1975 incomes above $12,000—when $12,000 was more than the median income for all American families.

Since all borrowers—NDSL or GSL—pay zero interest while they are students, the difference in interest rates only becomes real after they have left school. But there have apparently never been any studies of comparative incomes of NDSL and GSL borrowers once they enter repayment status. For all that we can tell, the extra subsidy for the NDSL borrower is just a $100 million a year gift that some young people get after leaving college and others do not.

The much larger guaranteed student loan program became law in 1965. The law provided that for States with student loan guaranty agencies, the Federal Government would cover 80 percent of the State's losses in guaranteeing education loans that students would obtain from banks and other commercial lending institutions. It was hoped that such a shared guaranty would bring private capital to the student loan market, and at an interest rate of 6 percent or less, which would be paid by the Federal Government for borrowers who came from families with incomes under $15,000, so long as the borrower was in school.

But the 1965 expectations were not realized. Not all the States joined in, so the Federal Government became a 100-percent guarantor for lenders in the nonparticipating States.

Then it soon turned out that the standard 6-percent interest rate was not high enough to attract private capital. It was boosted to 7 percent.

By 1969 it was obvious that 7 percent was insufficient, so in that year Congress legislated a special allowance, meaning a bonus bringing the effective interest rate up to a maximum of 10 percent—depending on quarterly fluctuations in Government borrowing costs—with the difference above 7 percent payable from the Federal Treasury.

Three years later, Congress created the Student Loan Marketing Association—Sallie Mae. The function of Sallie Mae is to provide a secondary market in student loans. In layman's terms, what Sallie Mae does is two things: (1) It buys student loans from banks and other lenders, thereby becoming the owner of the loan and the one responsible for collecting it when due, and (2) it lends money to banks, up to 80 percent of the face value of the student loans made by that bank, with those loans being the collateral to insure that Sallie Mae will be repaid. In either case, the effect is that the bank's funds are no longer tied up in its student loan portfolio, and the funds received from Sallie Mae can be turned into more student loans or other kinds of investments a bank may want to make.

Sallie Mae is declared by its 1972 enabling legislation to be a Government-sponsored private corporation. In order to enable Sallie Mae to be able to buy student loans, and to lend money against them, it was given 10 years of power to borrow from the Federal Treasury, subject to the approval of the Secretary of HEW, but without any statutory dollar limit. The corporation has borrowed about $1 billion on that basis, and according to the President's fiscal year 1980 budget, will have borrowed $1.75 billion from the Treasury by October 1, 1980. Thus, about 98 percent of Sallie Mae's current resources have been supplied by the Federal Government. A year or so from now, the Federal share will approach 99 percent.

In 1976, it developed that the maximum 10 percent in combined interest and special allowance was too low, so Congress raised the ceiling to 12 percent—averaged over any four consecutive quarters. That same year, the inschool interest subsidy was extended to borrowers with family incomes up to about $31,000 adjusted gross income. In 1978, the family income ceiling was taken off altogether.

From 1965 through last September, the GSL program totaled about $13 billion in loans, of which $5.2 billion had been repaid, another $1.1 billion in defaulted loans had been redeemed by the Federal Government under its guaranty commitment, and $6.8 billion were still outstanding. In the first 6 months of this fiscal year—that is, through March 31, 1979—loan dollar volume is running 38 percent ahead of the same period last year, and the number of borrowers is up by 28 percent. The President had budgeted for increases of 21 and 10 percent, respecively. On-budget GSL program costs now exceed $1 billion a year, and the default rate is about 14 percent.

The immediate future of the GSL program is difficult to predict. The high cost of government borrowing in the last few quarters has forced the special allowance against its statutory ceiling, but the actual effects of the formula will not be felt until July—when the combined interest and special allowance must drop to 11 percent, compared to the 13.25-percent rate payable this quarter. If the present ceiling formula is retained, there will be strong downward pressures on the inclination of banks to make new student loans, just when there seem to be extraordinary upward pressures in the demand for such loans.

Viewed originally as an ingenious and inexpensive way to attract private-sector capital to the student loan business, the GSL program has gone through piecemeal alterations that have transformed it into a system much more costly than a direct Federal loan program, with the higher costs not rebounding to the benefit of student borrowers, but rather to the benefit of the financial institutions that make the loans.

The transformation occurred in two steps. The first was the enactment of the special allowance, which had the effect of guaranteeing the GSL lenders an interest rate 3.5 percentage points above the Treasury's short-run borrowing costs.

The second step in the transformation came with the creation of Sallie Mae and its 10-year grant of access to the U.S. Treasury. Put in simplest terms, the existence of Sallie Mae allows a bank to make a student loan with private sector capital and then trade in the loan for Sallie Mae capital. Since Sallie Mae has gotten about 98 percent of its capital from the Treasury, the actual effect of the transaction is that capital borrowed by the Federal Government replaces whatever private sector capital was involved.

Sallie Mae not only injects Federal capital into the student loan system through its loan purchase program, it also does so by lending money at bargain rates to banks, who in turn relend that money to students. The 2.5 percentage point differential between a bank's cost of borrowing from Sallie Mae and its return from the Federal Treasury for relending that same money has the effect of raising the bank's gross rate of return well above the nominal 13.25 percent currently in effect.

Recently, the State direct lending agencies have discovered the advantages of dealing with Sallie Mae. They get their initial capital from public funds, of course, either appropriated or borrowed. After they have loaned out the funds so raised, they can sell the notes to Sallie Mae and relend the proceeds to more students.

Both the State and Sallie Mae profit on the deal, because the borrowing cost of the former is typically less than 7 percent and for the latter, about 10 percent, while the return to each is the familiar 13.25 percent, paid from appropriated Federal funds. The State bondholders and the Treasury eventually get paid back as the student borrowers repay their loans. If any of those borrowers default—as surely some will—Congress appropriates enough to cover every penny of defaulted principal and missed interest owed. In all the foregoing, there is no private sector capital at all, as that phrase is usually defined, and nothing is at risk; the real burden is squarely and solely on the Federal taxpayer.

I have oversimplified somewhat in of the examples I have given, but every oversimplification aside, the basic point remains the same: the guaranteed student loan program, as modified over time, bears no real resemblance to the program originally conceived. Instead of attracting private capital to the student loan market solely on the strength of a Federal guaranty against any loss, the Treasury now pays about 13 percent for all capital entering the system, even though the same capital would cost less than 10 percent if the Government borrowed it directly. Moreover, about one-sixth of all GSL capital can be traced to the Federal Government. One Federal office loans the money out to Sallie Mae at 10 percent, which passes it on to the GSL lenders at 11 percent, and another Federal office pays those lenders 13 percent for relending the Government's money to students.

Before turning to a discussion of possible changes in the present system, I want to lay out the assumptions that have guided our analysis.

First, the sole object of Federal intervention in the student loan business is to help people pay the cost of attending educational institutions. If the necessary side effects are to stimulate business and profits for banks, or to enable State governments to engage in arbitrage at Federal expense, or to provide employment in Federal, State, academic, and other bureaucracies, so be it. But we must not forget that the side effects are just what the name implies; there is no public policy goal in keeping them.

Second, we do and should care about the cost of the route by which a dollar travels from the public and into the hands of a student borrower.

Third, the particular goals of Federal intervention are: (1) To assure that all qualified students in need of an educational loan are able to obtain one, and that repayment arrangements are manageable when the borrowers leave school; (2) to the extent that student borrowers must be subsidized, to give the subsidies on a fair and explicable basis; and (3) to structure the program in the most effective and efficient possible manner, so that it is least costly, least vulnerable to abuse, and least complicated for students and the institutions they attend.

There are two quite different cost decisions that Congress makes in connection with student loan programs. The first has to do with the cost of the system itself, which includes the cost of capital, of originating loans and of servicing those loans. It is these system costs with which our analysis is mainly concerned. The second kind of cost decision is with respect to how much of the system costs—whatever they are—should be borne by student borrowers. While the two kinds of decisions are clearly related, they are also clearly independent. The goal for system costs should be to make them as low as possible. The goal for borrower subsidies is another matter; it depends on subjective judgments about which generations should bear what portions of postsecondary education costs, and within generations, how much the college-going group should be subsidized compared to the non-college-going group.

It appears to us that the student loan system costs under the present arrangements are considerably higher than they need to be, and despite the fact that the Federal Government is paying more than is necessary, students are still not assured of being able to obtain the loans they need.

Basically, the system costs are now equal to the Government's cost of borrowing all the capital loaned to students, plus 3.5 percent a year on that capital, plus losses from defaults. Since the Government's borrowing costs per dollar will not be significiantly affected no matter how the student loan programs are structured, the only parts of the system costs worth scrutinizing for possible savings are the 3.5-percent allowance and the default costs.

The real purpose of the 3.5-percent allowance is to reimburse GSL lenders for their origination and servicing costs and to allow a reasonable profit on their activity. But some portion of the allowance, although the amounts are still probably small in a relative sense, is going to finance State arbitrage gains. Even if that issue is ignored, there still remains the question of whether the Government could obtain student loan origination and servicing for an annual cost of less than 3.5 percent of the capital in the system.

Considering origination costs first, they now include for every guaranteed loan the participation of both a lending institution and an educational institution. But since the Government is paying all the costs of putting up the capital, the role of the bank in such a loan is actually superfluous. The loan can just as well be originated by the educational institution alone.

Second, it is demonstrable that servicing costs are well below 3.5 percent of the capital being serviced. Sallie Mae has servicing contracts with four banking institutions and one State agency. The costs range from about $11 per year for borrowers who are still in school to a high of $27 per year for borrowers in repayment status.

If the Government were the owner of the student notes, it too could contract out for loan servicing, presumably on terms at least as favorable as those negotiated by Sallie Mae. In short, it would pay $11 to $27 a year instead of $70 a year on the estimated average guaranteed student loan now being made.

The remaining element of the current system cost is the loss from defaults. The long-run costs involved are difficult to estimate with any precision. While claims paid on defaulted GSL's are a known amount—about $200 million last year—it is impossible to state how much the Government will eventually collect from the debtors whose defaults gave rise to the claims, just as it cannot yet be known how much the Government will realize from its current effort to obtain payment from NDSL defaulters. But it does seem safe to predict that default losses will decline in proportion to the amount of effort the Government—with its superior ability to locate defaulters—puts into the task. Whether there will be a net budget gain from the Government's efforts remains to be seen.

All the foregoing suggests that it would be useful for the Congress to consider reshaping the system to acknowledge the reality of the Government's present role in raising the necessary capital. One possibility would be to federalize Sallie Mae, to have it be the conduit by which the funds would flow to State lending agencies, who would be the retailers, so to speak, in dealing with the educational institutions that would originate all student loans. There are many other ways in which the system could be restructured to the same end.

I will conclude this statement with a brief discussion of the borrower subsidies in the present student loan systems. As I mentioned earlier, there does not appear to be a sound analytical basis for continuing to have one program with a 3-percent charge and another with 7 percent. Indeed, the differential introduces questions both of fairness and practicality, as well as of cost. The fairness issue arises because the effect of the differential is that students in like circumstances are treated in an unlike fashion. The practicality issue comes about because, with two different interest rates, it is virtually impossible to consolidate loans when—as is often the case—a borrower has both a GSL and an NDSL when he reaches repayment status. Without suggesting what the interest rate ought to be, whether 7 percent or something else, there ought to be just one basic rate.

My second comment grows out of last fall's legislation that extended the inschool interest subsidy to every GSL borrower, irrespective of family income. We cannot yet know the costs and program implications of that change, but they may turn out to be severe, with costs rising when loans are readily available, and lower-income borrowers crowded out when loans are rationed. It is probable that a great many families with liquidity problems in financing their children's college costs, but who are fully able and willing to pay, say 7 percent, for the privilege of stretching those costs over time, will arrange to have their children take out the interest-free loans. The Congress might well consider adopting an explicit program for such families, with the interest subsidized for those who fell below a stated income level, or who have already qualified for any other need-based aid, and 7-percent loans for those who choose not to supply family income information.

Finally, I want to reemphasize that the short-run outlook for the GSL program is extremely clouded. When the impact of the special allowance ceiling occurs a month or so from now, you may be asked to turn aside from your deliberations about the long-run shape of student loan programs and do something quickly about the short-run shape.

Mr. Chairman, that concludes my prepared statement.

Mr. **Ford**. Thank you. It is very clear that some of the administrations rationale for their proposed consolidated loan programs, which we still have not seen, need study, given the objectives you have set forth, and the problems with the present system.

I am happy to see CBO doing this, because one of the frustrations that my predecessor and I have expressed as chairman of this committee is that for years we have been fighting successive administrations over reductions in NDSL money without any real basis for arguments, because, we have been doing it for a long time, we have hunches but we have been flying by the seat of our pants. Who will be affected? We do know that the distribution of the money is very uneven across the country. Many of us are forced to evaluate the validity of continued capital investments in that area on the basis of very imperfect information and a lot of hunches on the kind of institutions that are using it.

Tied into that, however, is this question, and that is something we were not able to determine during the last Congress when we were considering the changes in the "Middle Income Student Assistance Act" as it came to be known. With the advent of BEOG's in 1972, it does appear there was a shift in work-study from the low-income student to a higher-income bracket. One might reasonably assume the same sort of thing happened with respect to NDSL. Where NDSL was a principal source of tuition payments, for example, and of basic costs for the low-income student, that was replaced for some low-income students by BEOG's which then caused money to shift into a different population on campus and started moving upward.

We had some discussions about this a few years ago with respect to the terrible condition in student loan defaults and the fact that there had not been any effort to collect them. As we looked at the figures on the default rate, we became conscious of the fact that, for the years involved in the borrowing, we were talking about the very lowest income group on our college campuses as the borrowers. That has changed in subsequent years, and that the assumption, if you start off at the lower end of the economic scale, it is that much tougher to break out of it while in college and when you get out of college.

The fact seems to be that, if you have had a hard time getting a job before college, because of the environment you were in, the chances are that you will continue having a tough time getting a good paying job after the education because the opportunities simply do not present themselves that easily.

Does your study make any attempt to track what has happened to the population using NDSL since the advent of BOGE's? And you make the observation early in your statement, and again later, that you do not see any difference in the population being served by the two loans; you said that was a generalization. But if that is true, then the basic assumption with which we have been fighting the administration is faulty. We have been operating NDSL's as the principal source for income for the lowest income students on a college campus. If that is not the case then a strong part of the motivation for Chairman Perkins and others to fight for the low-interest rate and continued capital investment goes out the window. If we cannot show a difference between the 3-percent money being supplied to NDSL and the more expensive money being supplied to GSL, except for accessibility, we do not have much of an argument for the continuation of the two separate programs.

What do you know from your studies so far about the change, if any, that has taken place from 1972 until the present in populations in using these respective programs?

Mr. FITT. We have not examined that thus far.

The problem is that the judgments about these programs are mostly intuitive because of the lack of comprehensive statistics. It is probable that the average family income of GSL borrowers is higher than the average income of NDSL borrowers, particularly so since the family income ceiling has been taken off the GSL program.

The only reasonably good statistics, as I mention in the statement, are with respect to NDSL borrower. We simply do not have income statistics any longer for GSL borrowers.

Mr. FORD. Wait a minute. Why do you say that? We really do not have any loans that have been made since the limit has been taken off.

Mr. FITT. $900 million worth.

Mr. FORD. That is against a $14 billion pot. What about the other $13 billion?

Mr. FITT. Not very much.

Mr. FORD. We know what the maximum was.

Mr. FITT. The most recent figures as I remember——

Mr. **Ford**. And everybody assumes low-income kids were not getting GSL's in the past so somewhere between the level of NDSL average borrower and the GSL average borrower there is a gap.

The assumption in your study is that the lower-income students were not being served by that program and will be served even less now with the changes in middle-income student assistance. But we put $13 billion-plus out there at a time when very detailed information was required. Why is it we do not know who it was who got the loans?

Mr. **Fitt**. I do not know why the statistics have never been compiled or analyzed in a way that would permit accurate comparisons. The fact is they have not been compiled.

There is some information about first-time borrowers. I hesitate to say what the most recent year for that was. I think it was 1974, but I could be wrong on that. Basically we do not have—neither the Office of Education or anybody else has compiled those figures in a comprehensive way.

I did not mean to leave the impression that NDSL loans are no longer being made to young people who come from lower income backgrounds. I think that is true——

Mr. **Ford**. But you did say the difference between somebody who gets it and does not get it is a matter of luck.

Mr. **Fitt**. It depends on the institution you attend.

I will give you an anecdotal case involving a son of mine finishing his first year of law. He is an independent student. He received a $1,500 NDSL, his first year. This year he has a GSL loan. He has a summer job with a law firm at an annual rate that is about $30,000. When he graduates next year he will start at about $33,000. I do not regard him as needing a 3-percent loan for any part of his educational costs.

The point I tried to make in the statement was that the extra NDSL subsidy is really only available to people after they leave college, yet we base it on the family income of the student during his senior year in high school when that has nothing to do with his ability to repay after he leaves college.

There simply are no statistics available showing the comparative incomes of borrowers of NDSL or GSL when they actually begin to reach repayment and one pays 3 percent and one 7 percent. Most young people have to pay the 7 percent.

Mr. **Ford**. In preparing your study, have you inventoried the kind of statistical bases that might be available in the Office of Education, Sallie Mae, and other places which might answer any of the questions we have been discussing? We have never been able as a committee to get a satisfactory—at least from my perspective—a satisfactory explanation as to why it takes so long for anyone, this administration or the previous one, to get down to answering questions I have heard for years. Who gets the loans? Who gets hurt if we cut back? And what happens if we cut back? We ask the same questions every year when the budget comes up. In 1972, we were asking the question when BEOG's was passed. In 1976 we went through the same process. In 1978 we went through it again. And here we are again and we still do not know any more as to who gets the loans and who gets hurt if we adjust and tinker with them.

Some of us have had more exposure than we had 8 years ago and have more anecdotal information as to how it affects certain people. That is an imperfect way to effect legislation. You are saying CBO gets the same answers we get, which is a shrug of the shoulders and we do not know.

Mr. FITT. I cannot speak for the administration.

Mr. FORD. Where should we go to get the answers? You have raised very serious questions here which are not new questions to us, but they are restating the questions which have been asked over and over again. Where would you suggest we go to get the answers to these questions?

Mr. FITT. I have tried with the Office of Education and with various private organizations which concern themselves with student loan matters, and I get the same answer everywhere I turn with respect to usable statistics in connection with family incomes of GSL borrowers.

If I could leave that point for a moment, the main message that I hope would come through in the statement was that you could make the present program serve the same population, whatever it is, for considerably less money than the Government is spending on it now. The issue of how much interest to charge a student borrower or how much to charge his family if there were a parental borrowing program, those are different issues that can be considered separately, but you can take the present program certainly on a preliminary basis and operate it at a substantially lower cost than the Congress is now paying, $1½ billion a year—the taxpayer is paying.

Mr. FORD. One of your recommendations is to cut into the middleman profits. The Office of Education used an example of a cost of between $6,000 and $7,000 for each student loan we put out during the life of the loan. When it is broken down, one of the lowest costs is the default rate. The overwhelming portion of the cost is in the form of subsidies which do not go to students but to people in the money business. So one of their suggestions is that you bypass that level of profit, thereby changing from the original concept that you described in your statement.

I remember those discussions very vividly and there was a great deal of optimism on the part of some people on the committee that the banking industry was going to be so anxious to come forward with capital that we would have GSL money coming out of our ears. It never developed that way.

We have discovered what you say here in different ways about Sallie Mae, that in fact it has become a way of laundering Federal money in a way that we end up lending money to ourselves. In the process everybody who touches it makes something off of it and the student is still left with a loan to pay back, and the system is so complicated that everybody forgets that we started these programs for the purpose of buying education. We have not been able to talk about what kind of education we are buying because we have spent so much time in juggling interest figures, who will get the interest, who is going to guarantee the loans, that we have forgotten what we started out to do; we started out to make money available to students at the time they need it to purchase educational opportunity.

It does not appear from what your study is showing, that we are going to be in a very good position to go to the floor with reauthorization and tell our colleagues much more than what we have been telling them in the past as to why they should continue to support these programs.

I would solicit the assistance of your staff working with our staff in determining where we can go within a reasonable period of time and get a large enough model built so we can answer the kind of questions that are raised both by you and everyone else who discusses the student loan program in a thoughtful way.

Everybody who gets into it deep enough to go past the initial impressions seems to come to the bottom line of not knowing exactly how this program has worked and how it has changed.

We have to assume that the millions of dollars that have been put out in BEOG's have had some impact on the amount of money being borrowed by the population served by BEOG's. We do not know to what extent BEOG's has been replacing the loan with cash among the low-income population. We will continue increasing the scale for BEOG's again and we do not know what happens to that.

We have had a lot of proposals before us to rationalize the payment system, which almost everyone agrees is not a good system, because we have too many kinds of loans becoming due at the same time and we hit people with the loan obligation as they leave school. That removes all this beautiful rhetoric we have before us as to freedom of choice by saying you get a job that pays quick or you will be in trouble. We take all the freedom of choice, away from people by making them get a job as quickly as possible because they come out of schools with numerous debts.

Then we have groups testifying that we ought to increase the amount students can incur in indebtedness, particularly graduate students, and particularly those in the medical profession. The law schools now have a proposal to increase the amount of money that law students can borrow. There is a gentleman up in Massachusetts who wants to put them in permanent bondage forever and lend them all the money they can spend. I state on the record once again I do not support this program, despite the newspaper publicity to the contrary.

These are questions our colleagues will be asking us to answer. You leave us with a better definition of the dilemma but without any answers. Are you at a stage in your study where any of those questions can be examined in a more objective way with some objective findings to rely on within the next couple of months?

Mr. FITT. Certainly. I like to think the work CBO has done has been on an objective basis. We do not care who operates the program but what we are interested in is explaining to the Congress as best we know how the consequences of different ways of operating and financing these programs.

But the main point that concerns me is the confusion over the nature of capital or money. There is a good deal of passion devoted to defending the present arrangements on the basis they encourage private capital to enter the student loan system and be made available to students. But in our view, capital is capital, whether it is borrowed by the Federal Government directly or whether the Federal Government pays 13 percent to a bank for a student's use of the same capital. It is still capital and it does not have any philosophical or ideological identity. The basic characteristic of the present system is that the Government is paying considerably more for the use of the capital in the student loan system than if the Government borrowed it directly. That difference represents the price of the services of the middlemen that are participating present in the system.

Mr. FORD. Mr. Buchanan.

Mr. BUCHANAN. Thank you, Mr. Chairman.

Let me just ask you a list of questions, and if you are ready to, respond now; if not, perhaps you will for the record.

There are various proposals before us aimed at improving the student loan programs, the Maguire Fair Access Act, Kennedy tuition advance funds, Bellmon National Student Loan Bank. Are you prepared to comment on any of those proposals?

Mr. FITT. Our study, when it is concluded, will include a discussion of the various proposals that are on the table. I am not prepared today to describe our analysis of any of them in detail.

Mr. BUCHANAN. How, in your judgment, can Congress distinguish between students who may be in need and those temporarily suffering a negative cash flow?

Mr. FITT. You can only do so if you have an income test for the first kind of loan, and that kind of test was abandoned in the legislation last fall. But I do not know anyway to distinguish between a need-based subsidy and one which is not need-based unless you measure need.

Mr. BUCHANAN. If the NDSL program should be abolished, what should be done with the institutional revolving funds? Should it remain at the institution, go to the State lending agency, used as funds of the last resort, or stay in the Treasury; or do you have a suggestion?

Mr. FITT. CBO does not make suggestions. That capital is in the system now. Certainly the part of it which has been put up by the institutions, the decision with respect to what happens to that, it seems to me, should be left to the institutions. The $4 billion or so in Federal capital—which is eroded, of course, because of the amount of default—but it is still a very large sum, well over $3 billion—I do not think it makes much difference what Congress does with that. The fact is, the cost of appropriating money or guaranteeing a student loan, paying 13 percent for it, is actually the same. The money that is appropriated for the NDSL program could equally as well have been borrowed by the Government in either case it is converted into another kind of asset, namely a student loan.

The question really becomes the extent to which the Congress chooses to have these programs on budget or off. The cost is the same.

Mr. BUCHANAN. You mentioned the elimination of the need analysis in your judgment? Would this significantly reduce paperwork?

Mr. FITT. Clearly on the first cut, it does. Since none of the applicants have to provide family income information now there has to be some reduction in the paperwork.

Presumably, most of those applicants provide family income information anyhow in connection with their applications for basic grants or SEOG's, SSIG's, or whatever. What has been saved in terms of paperwork is a second furnishing of the same information, for most of them.

Mr. BUCHANAN. Do you have any judgment as to what extent the current high default rates are as a result of a high monthly repayment amount?

Mr. FITT. No, sir; I do not. I think the default problem is a result of default on the part of the various institutions, public and private, governmental and otherwise, in diligently attempting to have a responsible collection system.

I do not think anybody can say how much of a default rate is attributable to actual hardship on the part of the debtor and how much is attributable to the fact that nobody is pursuing him.

But the Federal Government's efforts to use their superior information in locating defaulters—and obviously it is more impressive to get a letter from the U.S. attorney than from the financial aid officer at your college—those efforts, presumably, should expose the cases where there is real hardship as distinguished from simply ignoring the obligation.

Mr. BUCHANAN. You mention the philosophical objections as to the idea of making debtors out of students in an attempt to help them.

I wonder, in the early years after school when the repayment time comes, logically, in most cases, those would be lower income years than later years, as one hopefully moves up in life. I wonder, therefore, if a loan repayment schedule starting with lower payments and building would make sense. Or does CBO not have any recommendations.

Mr. FITT. I do not know if it is possible to generalize usefully on that. Let me put it this way, we are not aware of any clamor or sense of unhappiness on the part of the population that is in repayment status, with respect to the kinds of arrangements that they are confronted with now.

It is too early for us to give a definitive response to that. Maybe we can never give a definitive response.

Mr. BUCHANAN. Mr. Chairman, I want to ask some more questions. I will take another turn or as you wish.

Mr. FORD. Mr. Gaydos.

Mr. GAYDOS. Mr. Fitt, I direct your attention to the bottom of page 5 of your statement where in the last paragraph you state: "in that it has no apparent effect on the decision to attend." We are talking about the 3-percent loans. Would you elaborate on that? Is that the consensus of opinion that students who should have the 3-percent loan available are not influenced? Those of us who think there should be no interest payable by the student while he attends school find it difficult to understand your observation.

Mr. FITT. First of all, there is no interest while the borrower is in school, so the first period is an interest-free situation no matter which program he is under.

Mr. GAYDOS. Both programs are the same, no interest while attending school?

Mr. FITT. Right. So the differential arises after they leave school. I am not familiar with all the literature on the subject. I have had to depend on my colleagues for a great many of the statements I have included in the testimony today, but I am told as far as the researchers can establish, the interest rate is basically a matter of indifference to the borrower. It does not seem to matter whether it is 3 percent or 7 percent in terms of his decision to enroll in college.

Mr. GAYDOS. Enroll in that college or college generally? If I was a prospective student, I would think all logic dictates that it would be a factor whether I have a loan available to me as a student, which I will be paying back at a 3-percent rate or a 7-percent rate. I would think that would be a very important consideration. Yet I am very interested in why you make the statement that the amount of interest paid and the time when it is paid has, as you state: "no apparent effect." It is not your quote. You are quoting somebody else. I cannot understand that, can you?

Mr. FITT. Clearly given a choice of a 3-percent loan after college or a 7 percent loan after college, you would choose the 3-percent loan. But where the 3-percent loan is not available, the decision to enroll does not seem to be affected. If I may, sir, I would like to furnish a more comprehensive answer for the record. I am feeling that I am beyond my depth at the moment, except passing on the results of the research that my colleagues have described.

Mr. GAYDOS. I can understand that. It is most important to me personally and the committee generally, because we are down to the crux of the problem. Is there a reason for a distinction between the two programs? Which program should be furthered, and which program should be abandoned? In other words, which program should be funded? I think that this entire problem is very important and it should be studied in depth.

On that same subject, I wonder if you could elaborate, based on information submitted to you, about the fact that whether you pay 3 percent or 7 percent later on when you leave school, it depends on chance. How does that work, that chance business?

Mr. FITT. The first point at which chance comes into play is the decision with respect to where the student enrolls. If the institution is a participant in the NDSL program, then he has some chance for an NDSL loan. If it does not, he does not.

Secondly, the amount of NDSL——

Mr. FORD. Could I interrupt there? One thing to keep in mind, is that less than a third of the institutions are participating in the 3-percent loan.

Mr. FITT. About half, I believe.

Mr. GAYDOS. But there would be more participating if we changed our entire approach to this problem, would there not?

For instance, if we had emphasized work-study awards, of BEOGs, and a student loan program that guarantees students accessibility, thus participation problems might not exist. It is just a matter of different distinctions as to why some are participating and some are not.

I am trying to get down to hopefully where our directions should be pointed. Should we be eliminating one of these programs and retaining the other, or maybe doing away with both the 7- and 3-percent loan programs and going into the work-study award program and going into the BEOG's on a more comprehensive scale?

I am trying to pick your brain as to how you feel assuming that you are in a position to give us the information in your professional capacity as counselor.

You are giving us facts. You have stated uncategorically that you would not want to venture an opinion, did you not? And I can understand your position. I am not trying to put you on the spot.

Now what about this chance factor? You say some are participating. As Mr. Ford, the chairman, says, some are not participating. What other elements of chance are there, outside of the qualifications?

Mr. FITT. The second point at which chance enters is the availability of the NDSL capital at the particular institution.

Mr. GAYDOS. We can cure that aspect of it, can we not, by making more or less available. That can be cured.

Mr. FITT. Yes. In theory, there is some point at which the loan demand could be met if you supplied enough capital. Then you would not have to put any more capital into it. But we are so far short of it now, I believe, that it is not a realistic possibility in terms of annual appropriations.

Then within an institution, take a university, which may be composed of 8 or 10 different schools, an undergraduate division, law school, forestry school, and so on, the NDSL funds are allocated to different schools. So, they may run out much sooner—the undergraduate allocation—than that in the law school, for example, or the forestry school, so that chance again is at work.

Mr. GAYDOS. Is there another chance factor? For example, if I went to one school that had the program I may qualify, and if I went to another school that had the program I may not qualify? If you have the same student, two different schools, two different institutions handling the application, then at school one I get it, and at the other I do not?

Mr. FITT. It could happen.

The purpose of the program is to entrust the funds to the institutions with the lending decisions. Obviously institutions vary in the process, in the way they allocate the money. In the law school my son attended, as I indicated, he got an NDSL. I am sure in other schools they would not dream of giving such a highly subsidized loan to a person with such high earning prospects.

Mr. GAYDOS. I have no further questions, Mr. Chairman.

Mr. FORD. Mr. Ratchford.

Mr. RATCHFORD. It seems to me we have a problem crying for a solution and the problem keeps being restated and the solution does not seem to appear. I know you are not in the opinion business, but did you look at the issue of consolidation at all?

Mr. FITT. Yes.

Mr. RATCHFORD. Any observations as opposed to opinions?

Mr. FITT. It is difficult to consolidate loans when there are different interest rates involved. There are technical solutions to that problem. One would be to establish a single loan program so that the paper basically was interchangeable. There are advantages and disadvantages of having a single loan program, but that is one solution to the consolidation problem.

Another would be to—and it would cost money—would be to have a program by which you bought the NDSL paper from the students. Giving them a $1,000 loan at 3 percent is about the same as a $430 loan at 7 percent. So if you wanted to get the NDSL capital back at work and relend it, it would pay you to allow the borrower in repayment to discharge his loan for considerably less than the principal still owed, if you reloaned the money then at 7 percent.

There are a host of little things like that which can be done. I question whether—I am certain I have not studied it sufficiently to be able to suggest a perfect solution this morning, nor will I ever be able to. There will always be costs and benefits which the Congress will have to weigh.

Mr. RATCHFORD. Let me shift gears. Did your analysis consider whether or not students are actually shopping for the preferred rate, or is the chance factor Mr. Gaydos was talking about the major element?

Mr. FITT. We have not looked at that. Of course the NDSL loans are administered through the institutional aid offices. If ordinary human instincts are at work here, the student would first try to get an NDSL.

Mr. RATCHFORD. That would be my instinct, also. I was a State legislator for 12 years and worked on truth-in-lending legislation, feeling that by showing the consumer the rates involved the consumer would be more careful in shopping. Unfortunately, these steps have not produced a discerning consumer. The question usually is: Is the money available, and how soon can I get it? I have noticed this to be a factor with cars and houses, and I wonder if it is not the same with college loans.

Mr. FITT. Sure, it is. There was a study done by a student scholarship group. During the survey, one young woman—I will never forget her response—she said: "Nobody knows where this comes from. It comes from God or someplace." She was talking about the whole range of BEOG's, CWS, NDSL's, et cetera.

The Congress has encouraged the development of student information offices and probably that has had some effect in increasing the understanding of the students; but I do not know the degree to which the level has really changed.

I think of myself—an adult—in terms of the mortgage on my house. I think I am like most people. I really do not care what the interest rate is. What I am interested in is, what is the monthly amount I will have to dig up out of my resources to pay for my housing? It will depend on whether it is a 20-year mortgage, a 30-year mortgage, the percentage rate—but I do not care about that. All I care about is what I have to pay a month. I think the students probably think about it the same way.

Mr. RATCHFORD. Which gets back to my question concerning the need for having the interest rates as attractive as possible. I wonder if we actually do produce a more discerning student, or if we simply created another problem.

We had a college financial aid administrator in here some weeks ago, and his simple explanation of the student loan process took an hour and a half. By the time the consumers in truth-in-lending gets through the paperwork, they throw up their hands. The present loan system is a program that is not understood, a program that has problems with finances, a program that is criticized by Congress and the public, and a program with a default problem. And yet we are kind of like the committee that has created the camel, because Congress has created it and yet it cannot figure out how to get the humps out of the program. So I know opinions are not part of your business, but any observations you can add to flatten out this camel—or some people would call it a turkey—would be greatly appreciated.

I yield back my time.

Mr. FORD. Thank you. Mr. Buchanan has additional questions, which will be, without objection, inserted in the record. We ask that you respond in writing to those questions.

Mr. BUCHANAN. I just wanted to ask, and you may prefer to rewrite my questions, what you project to be the consequences of these proposals. I will be glad for you to answer them that way.

I would like your best judgment as to possible consequences, relative to advantages and disadvantages of, for example, IRS' technical role in collections and various other matters.

Mr. FITT. All right, sir.

Mr. BUCHANAN. Thank you very much, Mr. Fitt.

[Information requested appears in the Appendix.]

Mr. FORD. Next we have a panel consisting of Joel Packer, United States Student Association; Michael C. Chisick, American Student Dental Association; Pat Kocian, Coalition of Independent College and University Students, and Millard H. Ruud, executive director, Association of American Law Schools.

Without objection, the prepared statements will be inserted in full at this point in the record.

We will ask the members of the panel to comment on their statements, and then we will have questions at the end of those comments.

We will start with Mr. Packer.

STATEMENTS OF JOEL PACKER, UNITED STATES STUDENT ASSOCIATION, WASHINGTON, D.C., MICHAEL C. CHISICK, AMERICAN STUDENT DENTAL ASSOCIATION, CHICAGO, ILL., PAT KOCIAN, COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS, AND MILLARD H. RUUD, EXECUTIVE DIRECTOR, ASSOCIATION OF AMERICAN LAW SCHOOLS, WASHINGTON, D.C., ACCOMPANIED BY JOHN R. KRAMER, PROFESSOR AND ASSISTANT DEAN OF AMERICAN LAW SCHOOLS AND THE LAW SCHOOL ADMISSION COUNCIL

STATEMENT OF JOEL PACKER, UNITED STATES STUDENT ASSOCIATION, WASHINGTON, D.C.

Mr. PACKER. Thank you very much.

As you know, I am the legislative director of United States Student Association. The topic under consideration today, student loans, was described in the House committee report as the most complex, controversial and comprehensive of the programs operating under the Higher Education Act.

We would add confusing to that list, and that would probably be a good description of the current state of affairs in the Federal student loan programs.

The several main areas we will highlight in our statement are capital availability, subsidy level and the whole question of repayments, including defaults.

In my statement we review legislative history of the program. I will only note in the GSL program in particular there have been statutory changes every year in the program, sometimes minor, sometimes major, sometimes taking us back to where we were. We think all these changes have resulted in a lot of confusion and sometimes in reduction in lending.

It is almost pretty amazing that the program is working as well as it has considering all these statutory changes that affect the number of people involved in the program, 11,000 lending institutions, 8,000 plus eligible educational institutions, Sallie Mae, HEW's and, of course, the more than 1 million students who are receiving loans.

In addition to all the statutory changes, each new set of laws must be implemented by regulations. We are all well aware of the delay in the administration's issuance of regulations. Yet the problem in the GSL area seems completely ridiculous. There are still not final regulations issued for the 1976 amendments.

The last proposed regulations came out in April 1978 and that is the last we have seen of them. Some provisions of the 1976 amendments do not have proposed regulations issued yet. There are obvious problems in the program which I will review. However, to throw out the entire system which has not been allowed the time necessary to fully work in favor of completely new schemes as the administration proposes or perhaps will be proposing when they finally propose something, strikes us as contrary to the 15-year history and congressional intent of the program, disruptive, shortsighted and likely to create more new problems than will be solved.

The basic choice we see in student loans in broad terms appears to be do we maintain the program which encourages the expansion of State guarantee agencies and make increased improvements or do we sweep away the entire system for an unproven national loan plan that would be financed by the Federal Government through the Federal Financing Bank?

This committee stated in 1976 the law was—

> Intended to put a priority on the creation of State guarantee agencies or the use of private non-profit insurers, as is done by some States, and to allow the growth of the FISL program of direct Federal insurance only as an "interim device."

The committee has had considerable occasion to reassess the wisdom of this policy during the past 3 years, and the overwhelming impact of the evidence before us has been to confirm what the Congress said in 1965 and reiterated in 1968:

> Your committee still believes that the State guarantee agency is the preferable device for the management of student loan insurance programs, and that FISL is and should remain a second choice.

These words are even more appropriate today.

Taking a look at the basic difference between the use of the State agencies versus the national loan program, the administration's proposal seems to be based on the premise that capital availability is insufficient under the current system. They have stated that every student must have assured access to loans and that they will provide such assurances directly. They also believe their plan will be less costly than the current system.

Let's take a look at how the State agencies are working. Prior to the 1976 amendments, there were 26 such agencies in existence. Up to that time the State agencies were clearly at a disadvantage with the nonagency States where the Federal insured student loan program was utilized. State guarantee agencies only received 80-percent reinsurance, while the Federal Government provided 100-percent guarantee on loans in nonagency States.

Since enactment of the 1976 amendments, which placed emphasis on encouraging State agencies, 13 new agencies have been created in States and territories. The total loan volume will be $4.5 billion between 1976 and 1979, compared to $5.2 billion for the 11 years previous to that. Some of the well established agencies will have more than doubled their volume since 1976. An example would be Michigan where the annual loan volume increased by 288 percent from $25 million to $72 million.

In States which have established effectively functioning agencies students are virtually assured of capital availability. And let us not forget that students should not be forced or enticed into taking out unrealistic loan burdens. GSL was intended to serve primarily middle-income families. Lower income families were supposed to receive grants.

Unfortunately, as we are all well aware, grants, even with the large increases in appropriations, have not kept pace with the need of low-income students for such assistance. Therefore, these people are increasingly forced to take out ever larger amounts of loans. I will return to this problem in a moment.

What about the 15 States and territories that do not yet have agencies? USSA does not believe the administration has moved aggressively enough to implement the 1976 amendments provisions to encourage the creation of State agencies. The constant rumors of the administration about a national loan bank have worked to create disincentives to the States. We have heard from several sources that Colorado has delayed instituting an agency because of such talk.

Capital availability can be improved under a well-managed State agency because these agencies can develop closer, more trustful working relationships with lenders, they can provide much greater preclaims assistance, and more timely payment of claims for defaulted notes.

A perfect example of the administration's undermining of the 1976 amendments efforts to increase capital availability is its refusal to issue regulations for section 428(a)(8)(A). This section allows lenders to issue loans in multiple disbursements, yet collect their full interest subsidy upon issuance of the first installment. This would help increase lender participation in the program since it would allow banks and other lenders use of extra capital for a few months while giving them the full interest in advance, at no increased cost to the Federal Government.

Indeed, this provision is likely to reduce Federal costs. By giving a first-year student, say only half his loan in the first semester, if he or she drops out during that semester—the first semester shows the highest incidence of withdrawal—the student is only liable for half the loan.

Thus, if default occurs, the liability of the Government would only cover the first half of the loan that was disbursed. So here is a provision of law that would increase capital availability, reduce amounts of default, and probably reduce the probability of default. Yet no regulation has been issued in 3 years to implement it.

Under a national loan plan, capital would come either from the private sector as it currently does or from the Federal Government. Under the first option it is inconceivable that increased capital availability would result by having the Federal Government serve as direct guarantor. This would simply be a return to FISL and, as you are well aware, the FISL program basically fizzled in most of the States where it was in existence.

The other option is to borrow money from the Federal Financing Bank. This is a nice idea but money costs money. The Treasury pays interest on its borrowings also, though at a lower rate than banks are charging for interest. Currently such borrowings do not appear on budget. We understand there is much pressure on OMB to put all such borrowings on budget.

If this happens, literally billions of dollars will be added into the education function of the budget. Undoubtedly, this will eat away at the funding available for vital grant and work programs. Of course, the administrative costs of centralizing the administration of this large program would also be substantial.

I know you will be hearing much more on this throughout the next several days from financial aid officials, State agencies, education institutions, and others. I believe you will hear much agreement for maintaining, with modifications, the basic structures and rejecting national loan proposals.

USSA generally doesn't like loans. We find them, particularly for lower income students, to be an improper method of financing higher education. Loans simply serve to shift the burden of cost from the Government to the student. The origin of the GSL program in 1964-65 stemmed from the intense desire of the administration to derail tuition tax credits. The Treasury Department came up with the idea of loans for middle-income families, not for low-income families. Now we seem to have lost sight of this. They are only interested in making loans of entitlements. We believe that assuring access in this manner will inevitably and inexorably cause more of the burden of cost to shift to the student.

State legislatures will up tuition and reduce State scholarship programs, and appropriations at the Federal level for grants and work will see little or no increases. How easy to say to students, go get a loan, worry about it over the next 5 to 15 years.

Mr. Chairman, you have stated this argument far more eloquently than I at a speech you gave last year at a Sallie Mae symposium.

> We must guard against an excess availability of easy student credit which leaves students with an oppressive repayment burden when they leave. There is a variation on Gresham's law in student financial aid, easy student credit relieves the pressure for adequate appropriations for the grant and work programs.
>
> We need to strike a delicate balance of making sure that adequate credit is available to those who should have it but is not so easy that we discourage funding the grant and work programs, with the result that those who should not have student loans are forced to use them.

USSA believes assured access will lead to the problems you point out. The delicate balance you envision can be accomplished with full implementation of the 1976 amendments, some additional improvements in this area, and use of NDSL to provide loans to those lower income students who do get shut out of the commercial money markets.

As we understand what the administration's proposal may be, there would be a decrease in subsidy. The need based loan would have an interest rate tied to some variable rate such as Treasury notes, while the parent loan might be unsubsidized. USSA categorically rejects these moves for they will simply lead to vastly greater loan burdens on students. This shift of cost from the Government to the student is the way HEW forsees to make their plan cheaper than the current system.

This is the way the Government probably envisions having their plan be cheaper than the former plan, simply by throwing the costs onto the students. We believe that the low rate of interest for NDSL is justified. This is a program for needy students and the low interest rates are in effect grants to these people. Raising the interest would have a substantial impact on these individuals. According to calculations by A.C.E. the change would add almost $1,200 to the student's repayment for a $5,000 loan. This large an increase in debt would likely lead to increased defaults and Government costs.

For GSL, we would probably agree that for the highest income people they should not receive an inschool interest subsidy. We just made that change last year, and there are two reasons for it.

One is a practical one that was decided last year in the debate over MISAA. Increased complexity would result for all student borrowers in order to differentiate the highest income people who only compose about 2 to 5 percent of the population. Also, the reality is that unsubsidized loans just aren't made.

The second is political. Congress decided to expand loan availability for these families as an alternative to tuition tax credits. To so swiftly renege on a promise would be politically unwise.

The reason subsidy costs are so high now is that interest rates are so high. Hopefully, they will decline and result in large cost reductions to the Government. It doesn't seem logical to suddenly shift this burden to students because of temporary market aberrations. According to material from the U.S. aid funds, if a freshman class borrower took out a GSL of $1,000 and started repayment 5 years later, with a 10-year payback period, he or she would pay $1,393.20 in total for principal and interest.

If the interest rates were 12 percent, as they are now, the Government would pay $878.55 in inschool subsidy and special allowances. However, if there were no Government subsidy and the interest accumulated during the in-school and grace periods the student would repay $3,033.60, an increased cost of $1,640.40, more than doubling the total amount, they would have to pay back. These increased levels are just asking for more defaults.

An extreme example of the costs of full interest to the student is the new health education assistance loan. If a student borrows $8,000 per year for 4 years, less than the maximum, OE estimates that the total owed for the student if one assumes a 3-year residency, a year grace period and a 15-year payback time, the total repayment will be $148,709.

It's bad enough that students must assume large loan burdens in the first place. Asking them to pay significantly higher levels of interest is creating a generation of indentured servants who are mentally mortgaged to the Government.

A suggestion that has been made is to defer the interest while the student is in school. The Government would pay the interest while the student is in school. This interest would be added onto the amount owed by the student and he or she would repay this to the bank, which would presumably repay OE. This won't work.

First, the same problem of excessive debt will exist as in the above examples. Second, the administrative headaches this will cause banks will drive them out of the program. The banks would have to keep separate track of this interest keep it in a separate account and pay it back to the Government. It is this type of redtape and complicated paperwork that has kept banks out of the program, and this approach would only worsen this problem.

Our suggested solutions include:

On capital availability. In order to further improve capital availability we recommend the following:

One: immediately implement the provisions for multiple disbursements.

Two: immediately implement the full range of incentives in the 1976 education amendments designed to encourage the creation of State agencies.

Three: expand the role of State agencies, H.R. 3769, the Fair Access to High Education Act, introduce by Representative Maguire of New Jersey, and contains a number of attractive provisions to do so.

His bill would provide to State agencies which act as local secondary markets seed money advances, preferential SLMA purchase agreements and warehousing advances, an unrestricted OE administrative cost payment of 1 percent, and a one-half percent special allowance for loans in repayment. This loan secondary market should go far to aid particularly smaller banks in increasing their student loan portfolios.

In addition, the Maguire bill would encourage State agencies to provide centralized lender referral and loan servicing. This provision will help students obtain loans and again help smaller lending institutions by taking over the complex loan servicing functions.

Finally, this bill would provide SLMA seed money and preferential SLMA purchase and warehouse arrangements for States which provide limited direct loan programs. This will help fill in the gaps that might remain if private capital does not meet the full need for loans.

Mr. Chairman, we would urge careful consideration of these provisions. There may be others that may also be desirable. USSA believes that the expansion of State agency activities holds the most promise for improved capital availability.

Turning to the question of defaults and repayments, USSA wishes to commend HEW for its vigorous efforts to collect loans that are past due. Their activities show that students are willing to repay their loans if given the proper opportunity to do so.

The causes of default are many: Lack of adequate information and counseling of students; abuses by institutions, such as inequitable tuition refund policies; unrealistic loan burdens; fixed repayment schedules; barriers to lender forebearance; students being overwhelmed by multiple loans, and until very recently poor efforts by HEW to collect loans from students.

USSA is convinced that the overwhelming majority of students are honest, and if treated fairly will repay their loans. They will not repay their loans if they do not understand they were given a loan. They will not repay their loans if they feel completely ripped off by their institution. They will not repay their loans if they are simply financially incapable of doing so. And they will not repay their loans unless they are asked to do so.

The current hullabaloo in the press about student loan defaulters is creating a terrible false impression among the general public that students are inherently cheaters and thieves. Rarely do we see a well-balanced story that attempts to thoughtfully explore the problem.

I believe the incredible facts are not that we have a default rate of around 10 percent in the program, down from 14 percent and declining and close to 4 percent in the State agency component, but that we have around 90 percent of borrowers paying back their loans in light of the above problems.

We are really sick and tired of students' motives being questioned and being assumed that they are cheaters and thieves and out to defraud the Government.

The best place to prevent a default is the day the loan is given. A student, particularly one who has no prior experience with loans, must be completely and thoroughly informed of what his or her responsibilities are. She/he must be given not just written material but counseling.

The students must be given detailed information about what their total repayments would be, and what options they may have for deferment, cancellation, or special repayment options.

The student must also be given an exit interview upon leaving school again outlining his responsibilities and repayment amounts.

USSA strongly recommends that these provisions be included in statute as requirements for participating educational institutions under both GSL and NDSL. The $10 GSL cost allowance can be used by an institution to help defray the cost of these services. USSA will actively work to see these allowances funded.

We won't get into detail in the area of tuition refunds since that is a running battle between many parties, but we think the idea of equitable tuition refunds needs to be addressed by this committee.

As you are aware, the institutions are trying to self-regulate themselves which we think is admirable but we think it is important to be sure students are not ripped off by institutions. Even with adequate counseling and consumer protection, students need some relief from the current repayment schedules, which all have fixed minimum amounts required for repayment.

The solution is to allow the student the option, before repayment starts, to establish a variable or graduated repayment plan. Representative Maguire's bill makes provisions for this through either the IRS or State agencies. USSA supports these types of proposals, except we do not desire to have the IRS involved in education; the IRS does not want to get involved either.

USSA has presented to you specific legislative language for a method of refinancing student loans that was drafted by the Oregon Student Lobby. This proposal would encourage the States to provide a refinancing mechanism by granting them advances. Such refinancing would also include options for consolidation of multiple loans held by one student.

This situation, of a student holding an NDSL and one or two GSL's, is becoming increasingly prevalent. Since each loan carries a monthly minimum these students are in an impossible situation. I note that many other organizations have recommended some form of variable repayment and loan consolidation. These are among our top priorities for loans.

Lest we forget the perennial relationship between education and work and the relationship between society's investment in each student and the student's return to society, USSA proposes that a student be forgiven a percentage of loan indebtedness, 50 percent for participating in community service work after leaving school.

This proposal will serve to enable those students with high debt to enter public service jobs at low salary, encourage others to enter such work, and provide for much-needed community service work. Not only will this amendment help pay the student's bills, but it will increase significantly the quality of education by engaging the energies of students in the constant interaction between campus and community. Several other groups have proposed some form of loan cancellation or at least deferment for public service work.

Last, in order to insure that loans be limited to a reasonable proportion of a student's aid package, USSA suggests that a statutory limit be enacted that no more than 33 percent of need can be met through loans.

A major and continuing problem in considering changes in student loan programs is the lack of information about borrowers, potential borrowers, repayers, defaulters, and their families. This lack of information makes it almost impossible for anyone to make sense out of the many proposals for straightening out the student loan programs.

In addition, the lack of information makes it almost impossible for newspaper and television reporters to figure out "what the problem is."

Loan profiles are important to look at over a period of years to help:

(*a*) Find out the difference between States which have loan agencies and those that do not, and to see what happened to borrowing in States which have set up agencies after the 1976 amendments.

(*b*) Learn the income and other backgrounds of borrowers, in order to draw inferences of loans which are needed as opposed to of convenience.

(*c*) Learn the difference between GSL and NDSL borrowers.

(*d*) Learn the impact of higher income students to GSL's under MISAA in terms of available loans to other students.

To help Congress and the postsecondary education community in the loan debates we propose two immediate steps:

One, this subcommittee should request the Office of Education to provide immediately the loan profiles required under section 432 (c), other data on borrowing patterns from the GSL and NDSL programs for the period from 1976, and earlier if possible.

Two, approve a technical amendment, as part of the 1979 emergency loan legislation, that we understand will be offered soon, which will enable OE and loan guarantors to collect minimal financial data on family income range and dependency status so that reports in the future will be of value, now that income is no longer a factor in obtaining a GSL.

Mr. Chairman, in closing, I hope that USSA has been able to shed some light on what we see as the basic issues, and the directions we would like to see loans move in. In addition to the proposals included in this statement, our formal proposals which we submitted in February include additional suggestions, such as SLMA purchase of NDSL notes and clarifying the role of NDSL as a backup to GSL.

Once again, thank you for the opportunity to be here.

I will be happy to answer any questions you may have.

[The complete statement of Mr. Packer follows:]

USSA
United States
Student
Association

The Merger of the U.S. National Student Association and the National Student Lobby

STATEMENT OF

JOEL PACKER

LEGISLATIVE DIRECTOR

UNITED STATES STUDENT ASSOCIATION

BEFORE THE

HOUSE POSTSECONDARY EDUCATION SUBCOMMITTEE

ON REAUTHORIZATION OF THE
FEDERAL STUDENT LOAN PROGRAMS

MAY 30, 1979

RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you again. As you know, my name is Joel Packer and I am Legislative Director of the United States Student Association (USSA).

The topic under consideration in this portion of the reauthorization hearing, student loans, was described in the House Committee Report on the Guaranteed Student Loan Amendments of 1976 (Report #94-1232) as "the most complex, the most controversial and the most comprehensive of the programs operating under the Higher Education Act". If you add confusing to the list, that would be a pretty good description of the current state of affairs in the Federal student loan programs. There are several main areas that need review - capital availibility, subsidy levels, and repayments, including defaults. Before I touch on these let me review quickly a bit of history and current operations.

According to the Administration's budget proposal FY79 spending for the National Direct Student Loan Program (NDSL) will be $329 million, which will support a total lending level when the campus revolving funds are included of $649 million to provide loans to 917,000 students. For FY80, the request is for only $235 million in new Federal funds which the Administration claims will still produce a total lending volume of $640 million for 902,000 loans, due to increasing collections to $412 million.

In the Guaranteed Student Loan Program (GSL), in FY79, the government will spend $972 million in interest subsidies, special allowance, default claims, and other costs to promote $2.36 billion in loans for 1,140,000 students. The projections for FY 80 show $960 million in Federal spending, a total loan volume of almost $2.64 billion, and 1,160,000 loans.

Therefore, a total of $3.28 billion will be lent under both the GSL and NDSL programs, supported by Federal spending of $1.135 billion.

The history of the programs goes back to 1958 when NDSL was established as the National Defense Student Loan. Essentially, the program is the same today as it was then with the 3 percent interest, the need factor, cancellation provisions,and the school as lender and collector. GSL was established in 1965. Initially loans were provided at 6% interest, with in school interest subsidy for those students whose families had adjusted income of less than $15,000. This program has been amended several times, often resulting in confusion and reduction in lending.

P.L. 90-460 raised the interest rate from 6 percent to 7 percent and created reinsurance authority for state guaranty agencies. P.L. 91-95, the Emergency Insured Student Loan Act of 1969, created the special allowance of up to 3 percent. P.L. 92-318, the Education Amendments of 1972 increased the loan maximums, insured interest as well as principal, created the Student Loan Marketing Association (SLMA), and instituted a needs test for eligibility for the interest subsidy. P.L. 92-391, a joint Congressional Resolution in 1972, suspended implementation of the needs test until March 1, 1974, P.L. 93-269, the Education Amendments of 1974,eliminated the needs test for those students from families with adjusted incomes under $15,000 (in effect, the status of things before the 1972 Education Amendments.) P.L. 94-482, the Education Amendments of 1976, made substantial changes such as raising the income ceiling for the interest subsidy to $25,000, raising the maximum loan limits, placed special restrictions on schools acting as lenders, required that loan proceeds be disbursed by checks to the borrower, permitted shorter loan payback periods, prevented students from declaring bankruptcy for five years after graduation, increased the special allowance to lenders, and placed significant emphasis on the encouragement of state agencies by increasing reinsurance rates, and providing an administrative allowance for them. P.L. 95-566, the Middle Income Student Assistance Act, completely removed the income ceiling for eligibility for the interest subsidy. And lastly, recent changes in the Bankruptcy Act expanded and revised the prohibition on student bankruptcy.

Obviously these constant statutory changes would make it difficult to keep any program running efficiently, especially one that involves such diverse groups as 11,000 lending institutions, 8,000 plus eligible educational institutions, 39 states guaranty agencies, Sallie Mae, HEW, and of course the more than one million students receiving loans.

And of course each new law must be implemented by regulations. We are all well aware of the delay in the Administration's issuance of regulations, yet the problems in getting out GSL regs seems ridiculous. There are no final regs out yet to implement the 1976 Education Amendments! The last proposed regs came out in April 1978 and that's the last we've seen of them. Some provisions of the '76 Amendments have not even had proposed regs issued.

Yet with all this confusion and chaos the program, we believe, is working relatively well, and can be improved with some modifications and most important time. There are obvious problems which I will review below. However, to throw out the entire system, which has not been allowed the time necessary to fully work, in favor of some completely new scheme, such as the Administration proposes, strikes us as contrary to the 15 year history and Congressional intent of the program, disruptive, short-sighted and likely to create more new problems than will be solved.

The basic choice, in broad terms appears to be do we maintain and stabilize the basic structure and thrust of the loan program, which is to encourage the creation and expansion of state guaranty agencies, and make improvements to increase capital availability and reduce defaults, or do we sweep away the system for an unproven national loan plan that would be basically financed by the Federal government through the Federal Financing Bank?

As the Education and Labor Committee stated in 1976,

> "...the law was intended to put a priority on the creation of state guarantee agencies (or the use of private non-

> profit insurers, as is done by some states) and to allow the growth of the FISL program of direct Federal insurance only as an "interim device". The committee has had considerable occasion to reassess the wisdom of this policy during the past three years, and the overwhelming impact of the evidence before us has been to confirm what the Congress said in 1965 and reiterated in 1968.
>
> "Your Committee still believes that the state guarantee agency is the preferable devise for the management of student loan insurance programs, and that FISL is and should remain a second choice." (Emphasis in Report).

These words are even more appropriate today.

STATE GUARANTY AGENCIES VS. A NATIONAL LOAN BANK

The Administration's proposal, or what there is of it, seems to be based on the premise that capital availability is insufficient under the current system. They have stated that every student must have assured access to loans and that they will provide such assurances directly. They also believe their plan will be less costly than the current system.

Let's take a look at how the State agencies are working. Prior to the 1976 Amendments, there were 26 such agencies in existance. As the law stood at the time they were definitely on an unequal footing with the non-agency states, where the Federal Insured Student Loan program (FISL) was utilized. (State guaranty agencies only received 80 percent reinsurance, while the Federal government provided 100 percent guarantee on loans in non-agency states.) Since enactment of the '76 Amendments 13 new states and territories have created an agency (California, Florida, Idaho, Indiana, Iowa, Kansas, Kentucky, Minnesota, New Mexico, South Carolina, South Dakota, Utah, and the Virgin Islands). The total loan volume guaranteed by these states will be $4.5 billion since 1976, compared to $5.2 billion for the eleven years prior to that. Some of the well established agencies will have more than doubled their volume since 1976. An example would be Michigan where the annual loan volume increased by 288 percent from $25 million to $72 million.

In states which have established effectively functioning agencies students are virtually assured of capital availability. And let us not forget that students should not be forced or enticed into taking out unrealistic loan burdens. GSL was intended to serve primarily middle-income families. Lower-income families were supposed to receive grants. Unfortunately, as we are all well aware, grants, even with the large increases in appropriations have not kept pace with the need of low-income students for such assistance. Therefore these people are increasingly forced to take out ever-larger amounts of loans. I'll return to this problem in a moment.

What about the 15 states and territories that do not yet have agencies? USSA does not believe the Administration has aggressively enough moved to implement the '76 Amendments' provisions to encourage the creation of state agencies. The constant rumors of the Administration about a national loan bank have worked to create disincentives to the States. We have heard from several sources that Colorado has delayed instituting an agency because of such talk.

Capital availibility can be improved under a well-managed state agency because these agencies can develop closer more trustful working relationships with lenders they can provide much greater pre-claims assistance, and more timely payment of claims for defaulted notes.

A good example of the Administration's undermining of the 1976 Amendments efforts to increase capital availibility is its refusal to issue regulations for Sec. 428(a)(8)(A). This section allows lenders to issue loans in multiple disbursements, yet collect their full interest subsidy upon issuance of the first installment. This would help increase lender participation in the program since it would allow banks and other lenders use of extra capital for a few months while giving them the full interest in advance, at no increased cost to the Federal government. Indeed this provision is likely to reduce Federal costs. By giving a first-year student, say only half their loan in the first semester, if he/she drops out during that semester (the first semester shows the highest incidence of withdrawal) the student is only liable for half the loan. Thus if default occurs, the liability of the government would only cover the first half of the loan that was disbursed. So here's a provision of law that would increase capital avalibility, reduce amounts of default, and probably reduce the probability of default. Yet,no regulation has been issued in three years.

Under a National Loan Plan, capital would come either from the private sector as it currently does, or from the Federal government. Under the first option it is inconceivable that increased capital availibility would result by having the Federal government serve as direct guarantor. This would simply be a return to FISL. I can envision nothing but a sharp decline in capital availibility if this occurs, along with a sharp increase in defaults.

The other option is to borrow money from the Federal Financing Bank (FFB). This is a nice idea but money costs money. The Treasury pays interest on its borrowings also, through at a lower rate than banks are charging for interest. Currently such borrowings do not appear "on budget" We understand there is much pressure in OMB to put all such borrowings "on budget". If this happens, literally billions of dollars will be added into the education function of the budget. Undoubtedly this will eat away at the funding available for vital grant and work programs. Of course the administrative costs of centralizing the administration of this large program would also be substantial.

I know you will be hearing much more on this throughout the next several days from financial aid officials, state agencies education institutions, and others. I believe you will hear much agreement for maintaining, with modifications the basic structures and rejecting national loan proposals.

ASSURED ACCESS LOANS

USSA generally doesn't like loans. We find them, particularly for lower-income students, to be an improper method of financing higher education. Loans simply serve to shift the burden of cost from the government to the student. The origin of the GSL program in 1964-65 stemmed from the intense desire of the Administration to derail tuition tax credits. The Treasury department came up with the idea of loans for middle-income families. We seem to have lost sight of this.

As John Morse, former Director of Govergmental Relations for A.C.E.has said in discussing the early loan programs in 1960,

> "...I expressed deep concern that we had not even the remotest idea of what reasonable debt limits might be, and that having discovered loans, we might be tempted to rely more and more on them as a substitute for, rather than a supplement to, societal and parental support. I feared we might place the heaviest burden of debt on our poorest citizens. And I expressed concern that if we did, collection and default problems would grow, to the dissillusionment of all who created the problem."

Very prophetic words.

How we love the Administration saying we must make loans an entitlement. It's funny in a perverse way that they seem to oppose making grants an entitlement as we have proposed. USSA believes assuring access will inevitably and inexorably cause more of the burden of cost to shift to the student. State legislatures will up tuition and reduce state scholarship programs, and appropriations at the Federal level for grants and work will see little or no increases. How easy to say to students, go get a loan, worry about it over the next 5-15 years.

Mr. Chairman you have stated this arguement far more eloquently than I, at a speech you gave last year at a Sallie Mae symposium.

> "...We must guard against an excess availibility of easy student credit which leaves students with an oppresive repayment burden when they leave. There is a variation on Gresham's law in student financial aid -- easy student credit relieves the pressure for adequate appropriations for the grant and work programs. We need to strike a delicate balance of making sure that adequate credit is available to those who should have it but is not so easy that we discourage funding the grant and work programs, with the result that those who should not have student loans are forced to use them."

USSA believes assured access will lead to the problems you point out. The delicate balance you envision can be accomplished with full implementation of the '76 Amendments, some additional improvements in this area, and use of NDSL to provide loans to those lower-income students who do get shut out of the commercial money markets.

SUBSIDY LEVELS

As we understand the Administration's proposal there would be a decrease in subsidy. The "need based" loan would have an interest rate tied to some varible rate such as treasury notes, while the parent loan might be unsubsidized. USSA catagorically rejects these moves for they will simply lead to vastly greater loan burdens on students. This shift of cost from the government to the student is the way HEW forsees to make their plan cheaper than the current system.

We believe that the low rate of interest for NDSL is justified. This is a program for needy students and the low interest rates are in effect grants to these people. Raising the interest would have a substantial impact on these individuals. According to calculations by A.C.E. the change would add almost $1200 to the student's repayment for a $5,000 loan. This large an increase in debt would likely lead to increased defaults.

For GSL,we would probably agree that for the highest-income people they should not receive an in-school interest subsidy. However, we are not prepared to recommend this change for two reasons. One is a practical one that was decided last year in the debate over MISAA. Increased complexity would result for all student borrowers in order to differentiate the highest-income people who only compose about 2-5 percent of the population. Also, the reality is that unsubsidized loans just aren't made. The second reason is political. Congress decided to expand loan availibility for these families as an altenative to tuition tax credits. To so swiftly renege on a promise would be politically unwise.

The reason subidy costs are so high now is that interest rates are so high. Hopefully they will decline and result in large cost reductions to the government. It doesn't seem logical to suddenly shift this burden to students because of temporary market aberrations. According to material from the United States Aid Funds (USAF) if a freshman class borrower took out a GSL of $1,000 and started repayment five years later, with a 10 year payback period, he/she would pay $1,393.20 in total, for principal and interest. If interest rates were 12%, as they are now, the government would pay $878.55 in in-school subsidy and special allowances. However, if there was no government subsidy and the interest accumulated during the in-school and grace periods the student would repay $3,033.60, an increased cost of $1,640.40. These levels are just asking for defaults.

An extreme example of the costs of full interest to the student is the new Health Education Assistance Loan (HEAL). If a student borrows $8,000 per year for four years (less than the maximum), OE estimates that the total owed for the student if one assumes a three-year residency, a year grace period and a 15-year payback time, the total repayment will be $148,709.

It's bad enough that students must assume large loan burdens in the first place. Asking them to pay significantly higher levels of interest is creating a generation of indentured servants who are mentally mortaged to the government.

A suggestion that has been made is to defer the interest while the student is in school. The government would pay the interest while the student is in school. This interest would be added on to the amount owed by the student and he/she would repay this to the bank, which would presumably repay OE. This won't work. First the same problem of excessive debt will exist as in the above examples. Second, the administrative headaches this will cause banks will drive them out of the program. They would have to keep seperate accounts of these deferred interest payments and then submit payment to OE. Since redtape and complicated paperwork has kept banks out of the program, this approach would only worsen this problem.

SUGGESTED SOLUTIONS

A) CAPITAL AVAILIBILITY

In order to further improve capital availibility we recommend the following:

1) Immediately implement the provisions for multiple disbursements.

2) Immediately implement the full range of incentives in the 1976 Education Amendments designed to encourage the creation of State agencies.

3) Expand the role of State agencies. HR 3769, the Fair Access to Higher Education Act, introduced by Rep. Maguire (D. - N.J.) contains a number of attractive provisions to do so. His bill would provide to State agencies which act as local secondary markets seed money advances, preferential SLMA purchase agreements and warehousing advances, an unrestricted OE administrative cost payment of 1 percent, and a one-half percent special allowance for loans in repayment. This local secondary market should go far to aid particularly smaller banks in increasing their student loan portfolios.

In addition, the Maguire bill would encourage State agencies to provide centralized lender referral and loan servicing. This provision will help students obtain loans, and again help smaller lending institutions by taking over the complex loan servicing functions. Finally, this bill would provide SLMA seed money and preferential SLMA purchase and warehouse arrangements for States which provide limited direct loan programs. This will help fill in the gaps that might remain if private capital does not meet the full need for loans.

Mr. Chairman, we would urge careful consideration of these provisions. There may be others that may also be desirable. USSA believes that the expansion of State agency activities holds the most promise for improved capital availibility.

B) DEFAULTS AND REPAYMENTS

Turning to the question of defaults and repayments, USSA wishes to commend HEW for its vigorous efforts to collect loans that are past due. Their activities show that students are willing to repay their loans if given the proper opportunity to do so.

The causes of default are many: lack of adequate information and counseling of students, abuses by institutions such as inequitable tuition refund policies, unrealistic loan burdens, fixed repayment schedules, barriers to lender forebearance, students being overwhelmed by multiple loans, and until very recently poor efforts by HEW to collect loans from students.

USSA is convinced that the overwhelming majority of students are honest, and if treated fairly will repay their loans. They will not repay their loans if they do not understand they were given a loan. They will not repay their loans if they feel completely ripped off by their institution. They will not repay their loan if they are simply financially incapable of doing so. And they will not repay their loan unless they are asked to do so.

The current hullabaloo in the press about student loan defaulters is creating a terrible false impression among the general public that students are inherently cheaters and thieves. Rarely do we see a well-balanced story that attempts to thoughtfully explore the problem. I believe the incredible facts are not that we have a default rate of around 10 percent in the program (down from 14 percent and declining), and close to 4 percent in the State agency component, but that we have around 90 percent of borrowers paying back their loans in light of the above problems.

We are really sick and tired of students'motives being questioned.

The best place to prevent a default is the day the loan is given. A student, particularly one who has no prior experience with loans, must be completely and thoroughly informed of what his/her reponsibilities are. She/he must be given not just written material, but counseling. The student must be given detailed information about what their total repayments would be, and what options they may have for deferment, cancellation, or special repayment options.

The student must also be given an exit interview upon leaving school again outlining their reponsibilities and their repayment amonts.

USSA strongly recommends that these provisions be included in statute as requirements for participating educational institutions under both GSL and NDSL. The $10 GSL cost allowance can be used by an institution to help defray the cost of these services. USSA will actively work to see these allowances funded.

The area of tuition refunds must also be addressed. A student who in good faith enrolls in an institution, obtains a loan, but then finds the education worthless and drops out, sometimes finds that they can not get a refund for the unused portion of their education and are stuck paying back a loan. The likely response- a default.

Recent FTC regulations that require pro rata refunds from proprietary schools should go a long way toward solving this problem.

OE has issued proposed regs which would grant the Commissioner authority to determine whether or not an institution s refund policy was "fair and equitable". Since there is some contoversy over whether OE has the legal authority to do so, final regulations have not been issued. Instead, in a rather pleasant surprise, the institutions themselves have devised, with our consultation, voluntary guidelines for institutions to follow regarding refunds. We endorse these efforts. Their goal is to have accrediting associations adopt these guidelines as part of their standards.

However, in light of the problems presented to this Committee several weeks ago about the whole accreditation process, USSA would urge you to take a careful look at the guidelines the associations have developed, and see if they would be adequate protection against the ripoffs of students. If not, perhaps the Committee may want to grant, as you did in 1976, explicit authority to the Commissioner to determine whether an institution's refund policy is fair and equitable.

Another problem is that of real blatent abuse [fraud] by institutions, or schools simply going out of business. Though these instances happen only rarely, they do occur. The result is often students stuck with loans they should not have gotten in the first place, and that they should not be liable for. If a school has acted fraudently and/or in violation of statute and/or HEW regulations in granting student loans, those students should not be held responsible to repay that loan. HEW should take civil action against such schools to get back these dollars.

Even with adequate counseling and consumer protection students will need some relief from the current repayment schedules, which all have fixed minimum amounts required for repayment. The solution is to allow the student the option, before repayment starts to establish a variable or graduated repayment plan. Rep. Maguire's bill makes provisions for this through either the IRS or State agencies. USSA supports these type of proposals, except we do not desire to have the IRS involved in education. The IRS does not want to get involved either.

USSA has presented to you specific legislative language for a method of refinancing student loans that was drafted by the Oregon Student Lobby. This proposal would encourage the States to provide a refinancing mechanism by granting them advances. Such refinancing would also include options for consolidation of multiple loans held by one student. This situation, of a student holding an NDSL and one or two GSLs is becoming increasingly prevalent. Since each loan carries a monthly minimum these students are in an impossible situation. I note that many other organizations have recommended some form of variable repayment and loan consolidation. These are among our top priorities for loans.

Lest we forget the perennial relationship between education and work, and the relationship between society's investment in each student and the student's return to society, USSA proposes that a student be forgiven a percentage of loan indebtedness (50%) for participating in community service work after leaving school. This proposal will serve to enable those students with high debt to enter public service jobs at low salary, encourage others to enter such work, and provide for much needed community service work. Not only will this amendment help pay the student's bills, but it will increase significantly the quality of education by engaging the energies of students in the constant interaction between campus and community. Several other groups have proposed some form of loan cancellation or at least deferment for public-service work.

Lastly, in order to ensure that loans be limited to a reasonable proportion of a student's aid package, USSA suggests that a statutory limit be enacted that no more than 33 percent of need can be met through loans.

C) PROFILES OF STUDENT LOAN BORROWERS

A major, and continuing problem in considering changes in student loan programs is the lack of information about borrowers, potential borrowers, repayers, defaulters and their families. This lack of information makes it almost impossible for anyone to make sense out of the many proposals for "straightening out" the student loan programs.

In addition, the lack of information makes it almost impossible for newspaper and television reporters to figure out "what the problem is".

Loan profiles are important to look at over a period of years to help:

a) find out the difference between states which have loan agencies and those that do not, and to see what happened to borrowing in states which have set up agencies after the 76 Amendments.

b) learn the income and other backgrounds of borrowers, in order to draw inferences of loans which are "needed" as opposed to "of convenience".

c) learn the difference between GSL and NDSL borrowers.

d) learn of the impact of higher income students to GSL's under MISAA in terms of available loans to other students.

To help Congress and the postsecondary education community in the loan debates we propose two immediate steps:

1) This Subcommittee should request the Office of Education to provide immediately the loan profiles required under Sec. 432 (c), other data on borrowing patterns from the GSL and NDSL programs for the period from 1976, and earlier if possible.

2) Approve a technical amendment, as part of the 1979 Emergency Loan Legislation, that we understand will be offered soon, which will enable OE and loan guarantors to collect minimal financial data on family income range and dependency status so that reports in the future will be of value, now that income is no longer a factor in obtaining a GSL.

Mr. Chairman, in closing, I hope that USSA has been able to shed some light on what we see as the basic issues, and the directions we would like to see loans move in. In addition to the proposals included in this statement, our formal proposals which we submitted in February include additional suggestions, such as SLMA purchase of NDSL notes and clarifying the role of NDSL as a back-up to GSL. Once again, thank you for the opportunity to be here. I would be happy to answer any questions.

Mr. FORD. Thank you.

Pat Kocian, Coalition of Independent College and University Students.

STATEMENT OF PATRICK KOCIAN, COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

Mr. KOCIAN. Thank you, Mr. Chairman and members of the subcommittee.

My name is Patrick Kocian and I am the national director of the Coalition of Independent College and University Students.

I am fortunate again to appear after Joel Packer. We are in complete support of his association.

I don't want to be repetitive but I want to say something because I stayed up all night writing this.

We have come full circle in student lobbyism. We are here essentially to protect the status quo in student loans. We will suggest improvements and refinements and program but it is this time around our turn to resist the call for grandiose restructuring of a local student apparatus.

As long as we are talking about the restructuring of student loans I would like to speak about one aspect of those and that is lenders and guarantors. The candidates we have available to lend money to students include private sector banks and savings and loans, States, the Federal Government, and educational institutions.

Now, I would like to look at these in descending order of student preference: Private lenders; that is our top choice. We may call them banks here for short although other lending institutions are involved. We believe these can be ideal sources for student loan capital because they are local, widely distributed geographically. They are professional lenders, best equipped to lend and collect money and, not in the least important, they are private which appeals to our country's preference for pluralistic solutions to social needs.

However, the latter quality lends to the problem of banks in achieving national policy. Banks are independent; they may be enticed but not coerced to lend money to students. Such enticement is comprised of two sets of incentives. One is financial, such as the special allowance, built into the system. The other, less tangible than the other but equally important, is the personal and professional respect, cooperation, and glad handing that lenders receive from Government representatives of the loan programs.

Without this attention, only the most extraordinary financial incentives will persuade private lenders to put their capital in student loans rather than other profitable investments. Thus, the guarantor is critical here. The further removed the guarantor is, the less responsive it can be to the individual needs of the lender; the more local the guarantor, the more likely that lenders can be coaxed, cajoled, and stroked into student loan participation.

If we prefer private lenders, and we do, then the guarantor should logically be local, as with the State agencies. We support such a relationship. With successful State-guarantee agencies, the need for State lenders is questionable. Nonetheless, States are the next preference for lenders, particularly in a supplementary capacity to compensate for deficencies in private lender participation.

Again in reference to private lenders, the Federal Government would appear to be less than optimum as a guarantor; apparently FISL/GSL default figures suggest this. Yet there are those who would concentrate all lending responsibility in the Federal Government. We are strongly opposed to these national student loan bank quasi-proposals.

The chief justification given for a national loan bank is the assurance of loan availability it ostensibly will provide all students. We will speak to that issue later. But aside from that dubious advantage, we find nothing compelling in the national loan bank concept.

There is nothing to suggest that nationalization of the loan programs will either reduce administrative costs or enhance efficiency; indeed, experience with Federal administration would suggest the opposite would occur. Nor will capital costs be any less via a Federal lender.

If obtained off budget, money costs the Feds about as much as it does anyone else; of course, supplanting currently private GSL capital with direct Federal appropriations is politically unthinkable. If some national loan bank proponents suggest that their money costs less, we suggest you look closely; you are likely to find the difference being passed off to students in the form of increased interest rates. There is no such thing as a cheaper loan.

Finally, we have educational institutions which are as equipped as the Federal Government to lend money to students, but is to be distinguished for different reasons. The most universal objection to institutional lending concerns the servicing responsiblities. While it's true that college administrators are quick to descend from their ivory towers when it comes to money matters, few institutions have the resources, the expertise, and until recently the motivation to adequately administer and collect loans. Nor should they; it's not their role.

But aside from administrative deficiencies, we face the more practical question of where institutions will obtain loan capital. If from the Federal Government, we encounter the tremendous costs mentioned above. If we rely on insitutional resources, we have a question of equity. If it is private capital that institutions will lend, we wonder how some institutions will fare in the credit market compared to others.

But our chief concern with institutional lending is from a consumer perspective. It is simply and clearly dangerous consumer policy to combine the financing and retail functions of postsecondary education under one roof. Such a policy inherently and irresistably invites salesmanship in education, directed at a consumer population that is still largely young and unsophisticated. This concern is especially relevant now and in the next decade, as even the most scrupulous and well-founded institutions must compete strenuously for a piece of the shrinking applicant pool.

An equally serious consequence of substantial institutional lending is its logical impact on pricing. College budgets are developed with direct reference to projected student aid revenues. Institutional lending capacity must encourage colleges to set tuition rates to exhaust all the controllable loan capital available. Certainly, many institutions won't need to do this, but as hard-pressed as most of them are today, who would bet on it?

For these reasons, we are very skeptical of proposals which would place most lending authority in college institutions. There is, however, a proper place for some institutional lending, in a last-resort capacity.

As you know, the NDSL program has come to serve for all practical purposes as the last chance loan for students unable to obtain a GSSL. We think such lending corresponds well with the campus-based role in our overall financial aid policy; limited programs designed to catch those students whose need escapes or is insufficiently addressed by other student aid programs.

Limited institutional lending must remain until the GSL program expands to its natural limits; it will likely always be needed to some degree to respond to exception circumstances. COPUS believes that a separate, limited loan program is essential to providing a backup to failures in any GSL system, and that such a program is ideally placed where individual circumstances are best identified, the educational institution. But, mind you, this is a limited loan program that we are talking about. Joel dealt with it quite well.

I would like to say COPUS is opposed to any formal assurances of student loan availability in Federal policy. We are sympathetic to the needs of students who have been denied any postsecondary education for lack of access to student loans. This is particularly common among students seeking to attend an independent college. But our desire to limit these obstacles is met by our fear of the immediate and long-term ramifications of a national student loan entitlement.

The prevailing buzzwords in loan debate today are "capital availability". This phrase is employed to denote the distribution of loan capital in relation to the student demand for the same. Associated cliches include loan access, which means the satisfaction of loan demand with available loan capital, and assured access, which means the satisfaction of all loan demand with available loan capital.

These definitions often overlap and the words are frequently interchanged. They all refer to the task of getting loans to students who need or want them.

The establishment of an entitled loan program will have its first visible impact in unprecedented tuition increases. There are currently some beneficent market forces at work that provide a counterbalance to the inflationary pressures that push student tuition and fees higher. One of the forces is the uncertainty about the amount of loan capital available to students.

To make an open-ended promise of universal loan availability would be to sacrifice this important counterinflationary measure. State legislatures could be expected to increase tuitions, rather than appropriations, to meet rising costs at State colleges and universities. Trustees at private colleges, beleaguered with market performances that render endowments practically useless, would turn with much greater ease to increasing their only source of flexible revenue, student tuitions.

And this escalation would be only the first turn of the cycle, as college personnel would soon seek well-deserved salary increases in response to an apparently elastic source of college revenue, student loans. Few people would recall that this manna from Washington would actually be bought by students.

The only way to entitle loans to all students and avoid shooting the tuition spiral to the moon would be to impose mandatory price controls on educational institutions. I can't imagine that such controls would be palatable to many people.

Still, our greatest fear of a student loan entitlement is of its threat to the principle mentioned above, that of a shared family-institutional-societal partnership in financing postsecondary education.

We see in the loan entitlement the seeds of a system which will first overgrow and then undermine the other, preferred forms of student assistance. We seriously doubt our capacity to secure needed appropriation increases for other vital Federal aid programs if Congress is offered the option of relying on loans alone to meet increased college costs. This is particularly worrisome if loan capital is Federal, and we don't see how an entitled loan program could rely on private lenders.

Finally, we wonder how long reasonable limitations on student borrowing will hold fast when the apparatus for universal delivery of student loans is in place.

Unless we want to encourage increased college costs and unless we want students to assume a greater percentage of these costs we must maintain some functional uncertainty in our loan programs.

But if a formal entitlement is unwise, an informal resolve to assure loans for most students who need them is a must. Joel mentioned a number of important proposals to assure that sort of a loan availability without actually making it a formal entitlement. I think we agree with each one of them he suggested. We must stimulate lender participation in the GSL program.

Representatives of such lenders will likely propose to you some financial incentives to increase lender participation. We suggest close evaluation of such proposals, but in general believe they represent the right direction of encouragement. State agencies have had remarkable success in developing lender participation, and their further development should be strongly supported.

Secondary markets provide one of the strongest encouragements to lenders, and their development at local levels should be considered. We would further support the development of local referral services to help students identify potential lenders.

In sum, we believe that capital availability and loan access should not be mandated, but should be encouraged through market incentives, local and decentralized encouragement of lenders, and better information and referral services to students.

Attached to our statement on behalf of our organization and USSA are the recommendations from loan workshops conducted at both the first and second student-commissioner conferences. The student commissioner conferences are cohosted by the Office of Education and the three major national student groups, the National Student Educational Funds, USSA, and COPUS. They bring about 60 student leaders together to discuss issues of concern, chiefly of financial aid.

Although we don't formally endorse the proposals from these workshops, I think you will find it interesting to see some of the concerns of bona fide students. I will close right there.

If I can answer any questions, I will be very happy to do so. [The full statement of Patrick Kocian follows:]

copus Washington

INCOMPLETE DRAFT

STATEMENT OF THE
COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

BEFORE THE
HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION
THE HONORABLE WILLIAM D. FORD, CHAIRMAN

Presented by Patrick W. Kocian
National Director

May 30, 1979

REAUTHORIZATION OF THE HIGHER EDUCATION ACT
STUDENT LOAN PROGRAMS

Mr. Chairman and Members of the Subcommittee, my name is Patrick W. Kocian, and I am National Director of the Coalition of Independent College and University Students (COPUS). I have only recently had my first opportunity to appear before your Subcommittee, while COPUS itself has frequently testified before you in the past, always to represent the concerns and genuine needs of students at independent colleges across the country. Your responsiveness to these representations has been gratifying, and we are pleased to have this opportunity to present our concerns for the reauthorization of the Higher Education Act, this time focusing on student loan programs.

Let me preface by admitting that I find student loans to be a *most* complicated topic. Yet through considerable reading, and listening, and brain-picking, I have concluded that I am not too terribly alone in my confusion. Moreover, I've been able to crystalize at least some general, and some specific, principles which correspond with the feedback COPUS has recieved from its membership. I hope to offer here some parameters and preferences against which you can measure the technical proposals given by witnesses better versed than I am in the esoterica of student loans. I believe that these preferences are almost entirely embraced by the U.S. Student Association, and thereby represent a bonafide student consensus on this issue.

Our statement today represents something of a full circle in student activism: as student lobbyists, we are here today to protect what essentially is the status quo. We suggest some improvements, some refinements, some progress, but it is our role this time around to resist the call for fundamental and grandiose restructuring of our student loan apparatus. Many of the proposals that have already been circulated this year threaten some of the tenets of student financial aid policy that we hold dear.

The most fundamental of these tenets is the shared student, parental, institutional, and societal responsibility for postsecondary educational opportunity. This traditional partnership evolved from the recognition that each partner is a beneficiary of education: society not only is wiser and richer for an educated citizenry, but is healthier for weakening class distinction through equal educational opportunity; institutions not only justify their support by society by sharing their services with all students without discrimination, but are also invigorated in their scholastic endeavors by the interaction of scholars from diverse environs and perspectives; the parental contribution to education reinforces the family as the social and economic unit around which our society is built; and the student, of course, has at the least a consumer obligation for the purchase of an education.

COPUS believes that student indebtedness is the least efficient manner to allow students to obtain a chosen education. But insofar as student loans are here to stay, the overiding student concern is to limit the role of student loans by maintaining the shared responsibility of family, state, and institution in realizing educational opportunity. It is from this perspective that we address all proposed student loan systems, and reject any proposals which would shift to students a greater portion of the costs of financing a postsecondary education.

I would like to proceed by speaking to four general areas of student loan concern: lenders and guarantors; capital availability; interest rates and loan maximums; and repayment and collections.

Lenders and Guarantors

The candidates we have available to lend money to students include the private sector--banks, savings and loans, etc.; states; the Federal government; and educational institutions. Let's look at these in descending order of student preference.

Private lenders--which we'll occassionally call "banks" for short, though many other private institutions can lend--can be the most ideal sources for student loan capital and origination. They're local; they're abundant; and they're widely distributed geographically. Banks are professionals, the ones best equipped to lend and collect money. And of course, banks are private, which appeals to our country's preference for pluralistic and decentralized solutions to social needs.

This latter quality lends to the problem of banks in achieving national policy. Banks are independent: they may be enticed, but not coerced to lend money to students. Such enticement is comprised of two sets of incentives: one is financial, such as the special allowance, built into the system; the other, less tangible than the other but equally important, is the personal and professional respect, cooperation, and glad-handing that lenders receive from government representatives of the loan programs. Without this attention, only the most extraordinary financial incentives will persuade private lenders to put their capital in student loans rather than other profitable investments. Thus, the guarantor is critical here. The further removed the guarantor is, the less responsive it can be to the individual needs of the lender; the more local the guarantor, the more likely that lenders can be coaxed, cajoled, and stroked into student loan participation.

If we prefer private lenders--and we do--then the guarantor should logically be local, as with the state agencies. We support such a relationship. With successful state guarantee agencies, the need for state lenders is questionable. Nonetheless, states are the next preference for lenders, particularly in a supplementary capacity to compensate for deficiencies in private lender participation.

Again, in reference to private lenders, the Federal government would appear to be less than optimum as a guarantor; apparently FISL/GSL default figures suggest this. Yet there are those who would concentrate all lending responsibility in the Federal government. We are strongly opposed to these quasi- "national student loan bank" proposals.

The chief justification given for a national loan bank is the assurance of loan availability it ostensively will provide all students. We will speak to that issue later. But aside from that dubious advantage, we find nothing appealing in the national loan bank concept.

There is nothing to suggest that nationalization of the loan programs will either reduce administrative costs or enhance efficiency; indeed, experience with federal administration would suggest the opposite would occur. Nor will capital costs be any less via a federal lender: if obtained off budget, money costs the feds about as much as it does anyone else; of course, supplanting currently-private GSL capital with direct federal appropriations is politically unthinkable. If some national loan bank proponents suggest that their money costs less, we suggest you look closely: you're likely to find the difference being passed off to students in the form of increased interest rates. There is no such thing as a "cheaper" loan.

Finally, we have educational institutions, which are as equipped as the federal government to lend money to students, but is so distinguished for different reasons. The most universal objection to institutional lending concerns the servicing responsibilities. While it's true that college administrators are quick to descend from their ivory towers when it comes to money matters, few institutions have the resources, the expertise, and until recently, the motivation to adequately administer and collect loans. Nor should they; it's not their role.

But aside from administrative deficiencies, we face the more practical question of where institutions will obtain loan capital. If from the federal government, we encounter the tremendous costs mentioned above. If we rely on institutional resources, we have a question of equity. If it is private capital that institutions will lend, we wonder how some institutions will fare in the credit market compared to others.

BUt our chief concern with institutional lending is from a consumer perspective. It is simply and clearly dangerous consumer policy to combine the financing and retail functions of postsecondary education under one roof. Such a policy inherently and irresistably invites salemanship in education, directed at a consumer population that is still largely young and unsophisticated. This concern is especially relevant now and in the next decade, as even the most scrupulous and well-founded institutions must compete strenuously for a piece of the shrinking applicant pool.

An equally serious consequance of substantial institutional lending is its logical impact on pricing. College budgets are developed with direct reference to projected student aid revenues. Institutional lending capacity must encourage colleges to set tuition rates to exhaust all the controllable loan capital available. Certainly, many institutions won't need to do this, but as hard-pressed as most of them are today, who would bet on it?

For these reasons, we are very skeptical of proposals which would place most lending authority in college institutions. There is, however, a proper place for some institutional lending, in a last-resort capacity. As you know, the NDSL program has come to serve for all practical purposes as the last chance loan for students unable to obtain a GSL. We thing such lending corresponds well with the campus-based role in our overall financial aid policy: limited programs designed to catch those students whose need escapes or is insufficiently addressed by other student aid programs. Limited institutional lending must remain until the GSL program expands to its natural limits; it will likely always be needed to some degree to respond to exception circumstances. COPUS believes that a separate, limited loan program is essential to providing a back-up to failures in any GSL system, and that such a program is ideally placed where individual circumstances are best identified, the educational institution.

Capital Availability

The prevailing buzzwords in loan debate today are "capital availability". This phrase is employed to denote the distribution of loan capital in relation to the student demand for the same. Associated cliches include "loan access", which means the satisfaction of loan demand with available loan capital, and "assured access", which means the satisfaction of all loan demand with available loan capital. These definitions often overlap and the words are frequently interchanged. They all refer to the task of getting loans to students who need or want them.

Much of the talk in loan policy circles surrounds the assumption that some students are unable to obtain the loans they need to persue a particular postsecondary education. We know that this assumption is valid. It is also the foundation for a number of well-intentioned proposals to "assure" all students "access" to student loans. COPUS is opposed to any such formal assurance in federal policy.

We are sympathetic to the needs of students who have been denied any postsecondary education for lack of access to a student loan; certainly, such students are most numerous among those who seek to attend an independent institution. But fundamental desire to eliminate such obstacles to educational opportunity is met by our shuddering fear of the immediate and long-term ramifications of a national loan entitlement.

The establishment of an entitled loan program will have its first visible impact in unprecedented tuition increases. There are currently some beneficent market forces at work that provide a counterbalance to the inflationary pressures that push student tuition and fees higher. One of the forces is the uncertainty about the amount of loan capital available to students. To make an open-ended promise of universal loan availability would be to sacrifice this important counter-inflationary measure State legislatures could be expected to increase tuitions, rather than appropriations, to meet rising costs at state colleges and universities. Trustees at private colleges, beleaguered with market performances that render endowments practically useless, would turn with much greater ease to increasing their only source of flexible revenue: student tuitions. And this escalation would be only the first turn of the cycle, as college personnel would soon seek well-deserved salary increases in response to an apparently elastic source of college revenue: student loans. Few people would recall that this manna from Washington would actually be bought by students.

The only way to entitle loans to all students, and avoid shooting the tuition spiral to the moon, would be to impose mandatory price controls on educational institutions. I can't imagine that such controls would be palatable to many people.

Still, our greatest fear of a student loan entitlement is of its threat to the principle mentioned above, that of a shared family-institutional-societal partnership in financing postsecondary education. We see in the loan entitlement the seeds of a system which will first overgrow, and then undermine the other, prefered forms of student assistance. We seriously doubt our capacity to secure needed appropriation increases for other vital federal aid programs if Congress is offered the option of relying on loans alone to meet increased college costs. This is particularly worrisome if loan capital is federal--and we don't see how an entitled loan program could rely on private lenders. Finally, we wonder how long reasonable limitations on student borrowing will hold fast when the apparatus for universal delivery of student loans is in place.

Unless we want to encourage increased college costs, and unless we want students to assume a greater percentage of these costs, we must maintain some functional uncertainty in our loan programs. But if a formal entitlement is unwise, an informal resolve to assure loans for most students who need them is a must. We concluded above that, from a student perspective, private lending institutions are the optimal lenders of student loans. To assure loan access, short of a national entitlement, we must then stimulate lender participation in the GSL program. Represenatives of such lenders will likely propose to you some financial incentives to increase lender participation--we suggest close evaluation of such proposals, but in general, believe they represent the right direction of encouragement. State agencies have had remarkable success in developing lender participation, and their further development should be strongly supported. Secondary markets provide one of the strongest encouragement to lenders, and their development at local levels should be considered. We would further support the development of local referral services to help students identify potential lenders.

In sum, we believe that capital availability and loan access should not be mandated, but should be encouraged through market incentives, local and decentralized encouragement of lenders, and better information and referral services to students. We admit that within this structure, some needy students may still slip through the cracks. Some will be caught by the institutionally-based loan program; some won't. But perhaps these latter students--who, we postulate, are of the lowest incomes and highest needs--should not be required to rely on student loans at all. Loans in general, after all, are only a "last resort" in financial aid.

Interest and Loan Maximums

**We oppose any increase of student loan interest rates beyond 7%. To increase student interest rates to market levels would be an unprecedented and unnecessary regression in federal student aid policy

**We oppose the repeal of the universal interest subsidy passed in MISAA. The interest subsidy is a recognition that college costs have become increasingly burdensome to all American families. The repeal of the in-school interest subsidy would be politically dangerous and encourage support for ill-advised aid programs such as tuition tax-credits

**We strongly oppose the deferal or accrual of student loan interest while the student is in school. There is no justification for increasing loan costs to students, and repayment of deferred interest would be administratively unfeasible

**We urge that undergraduate loan maximums not be increased beyond a $10,000 aggregate. We suggest a graduated annual loan ceiling correspondent to the student's year in college

Loan Repayment

**We support proposals to remove NDSL collection responsibilities from institutions

**We urge that variable repayment options be made available to student borrowers, over periods not to exceed 20 years

**We strongly support proposals to permit consolidation of multiple student loans in repayment, while retaining the aforementioned lending structures

**We propose that institutions be required to perform both entrance and exit interview with student borrowers, to adequately inform them of their loan responsibilities

**We believe that IRS involvement in loan collection is ideally limited to assisting loan collectors in locating borrowers.

RECOMMENDATIONS FROM WORKSHOPS

(From the Second and First Student-Commissioner Conferences, co-hosted by the U.S. Office of Education, the National Student Educational Fund, the U.S. Student Association, and the Coalition of Independent College and University Students)

1. Loan Workshop

Moderator: Pat Kocian, Coalition of Independent College and University Students
Resource Persons: Carol Wennerdahl, National Council of Higher Education Loan Programs
David Bayer, Guaranteed Student Loan Program, U.S.O.E.
Tom Butts, Student Aid Reauthorization Task Force, U.S.O.E.
Dennis Kernahan, Student Loan Marketing Association
Chuck Zuvor, American Bankers Association
Mike Levin, Staff of Cong. Andrew McGuire, D.-N.J.

1. Recommendation to: Congress and Office of Education
Re: Student Indebtedness Limits

Student loans should be available to finance postsecondary education, but only after all forms of grant aid are exhausted. Federal aid programs should be designed so that no more than 25 percent of a student's need must be met through borrowing. Ceilings on the maximum that a student may borrow should be retained. These ceilings should apply to the total of all student loans, regardless of the source.

2. Recommendation to: Congress and Office of Education
Re: Loan Availability

The Federal Government should assure the availability of student loans, within the limits of recommendation 1. The existing Guaranteed Student Loan and National Direct Student Loan programs should be retained until new programs are operating to deliver loans to all students who need them.

3. Recommendation to: Postsecondary Institutions and Office of Education
Re: Consumer Information About Loans

Schools participating in the Guaranteed Student Loan Program should be required to provide consumer information, as required by the Student Consumer Information sections of the Education Amendments of 1976 of schools participating in other Federal aid programs. Both entrance and exit interviews should be required so that students will completely understand the terms of loans.

4. Recommendation to: Congress and Office of Education
Re: Loan Repayment and Consolidation

Student borrowers should have the option of consolidating repayments from more than one loan program. Student borrowers should also have options to make graduated payments or to enter into other special repayment plans. One method to facilitate consolidation is to assure all private lenders that there will be a secondary market to which they can sell consolidated loans.

The involvement of the Internal Revenue Service in loan collection should be limited to assisting loan collectors in locating borrowers. It should not include the collection of loans through withholding or other means.

5. Recommendation to: Congress
   Re: Bankruptcy and Loan Indebtedness

Student loan obligations should not be distinguished from other liabilities in bankruptcy proceedings.

In addition to the above recommendations, please see the recommendations from the First Student-Commissioner Conference:

6. Recommendation to: Office of Education
   Re: Study of Interaction Between Tuition Increases and Loan Programs

We recommend that the Office of Education conduct a study to determine the relationship between increases in tuition and increases in aggregate student loan indebtedness upon graduation.

7. Recommendation to: Congress and Office of Education
   Re: Institutional "Bait and Switch" Tactics

We recommend that the Student Consumer Information sections be amended to include a requirement that institutions report the percentages of students receiving loan, grant and job aid during each year of school. In this way, a potential student could determine if an institution regularly offered low-loan, high-grant packages to incoming students, but later altered the packages to high-loan aid for continuing students.

8. Recommendation to: Congress and Office of Education
   Re: Cancellation of Student Loan Debt for Community Service

We recommend that students who perform two or more years of community service work have up to fifty percent of their total education debt cancelled. This could be done as done under the National Defense Student Loan program, in which students who became teachers had a percentage of their debt cancelled.

9. Recommendation to: Postsecondary Institutions and Office of Education
   Re: Grace Period for Graduate Students Working on Dissertations

We recommend that the grace period before repayment of student loans be extended for graduate students who are working on dissertations, but who have not formally enrolled in their institution in order to save tuition costs. We recommend that documentation for this grace period consist of a letter from the chair of the student's committee for his or her dissertation.

10. Recommendation to: Congress and Office of Education
    Re: Study of Consolidation of Loan Repayment

We recommend that the Office of Education study methods for consolidating student and family educational loans. We suggest one model for study, the Oregon State Student Loan Authority. We recommend the study of plans for "income contingent" repayment.

Mr. Ford. Thank you very much.

Michael Chisick, American Student Dental Association.

STATEMENT OF MICHAEL C. CHISICK, AMERICAN STUDENT DENTAL ASSOCIATION, CHICAGO, ILL.

Mr. Chisick. Mr. Chairman and distinguished Members of the Congress, ladies and gentlemen.

As president and chairman of the board of directors of the American Student Dental Association, I am here on behalf of the more than 16,000 dental students who are members of the ASDA, to present our views on student loan programs authorized by the Higher Education Act.

At the outset, let me express my sincere appreciation to the Postsecondary Education Subcommittee for allowing me this opportunity.

According to *the Economist*, September 16, 1978, costs of tuition, board, and lodging at American colleges and universities have risen 77 percent in the past decade. As members of the subcommittee are undoubtedly aware, this sharp increase in costs has not been offset by equivalent increases in available financial assistance.

As a result, many students and their families are undergoing considerable strain to meet these increased educational expenses. Indeed, as Senator Edward Kennedy pointed out in a letter this fall to *the Boston Globe*, November 15, 1978: "On the average, parents spend 13 percent of their gross income to send a child to a public college and over 26 percent of their gross income to send a child to a private college."

However, consider the situation which confronts those families that send a child on to a health professional school. Not only do they face an additional 4 years of sacrifice, but they also may face educational expenses of a magnitude far greater than those of an undergraduate education. This is especially true for students who attend private dental colleges or who are nonresidents at a State-supported dental school.

For example, estimated total expenses for freshmen entering Harvard College this fall are $8,300. By contrast, first-year students at the Harvard School of Dental Medicine and at the Tufts School of Dental Medicine will face estimated total first-year expenses of $12,500 and $19,900, respectively.

Aside from sheer magnitude, tuitions at the Nation's health professional schools are rising at a dramatically sharper rate than at the Nation's undergraduate colleges. A recent survey by the American Association of Dental Schools revealed that average tuition for all U.S. dental schools rose from $1,435 to $3,468, or 142 percent, in the past 6 years. Furthermore, of the three classifications of dental schools, private, private-State related, and public, the highest dollar amounts were reported by private schools, whose average tuitions increased by 149 percent, from $2,439 to $6,061.

In comparison, although public schools experienced average increases of almost the same percentage, 141 percent, as did the private schools, their figures in dollar amounts remained significantly lower, rising from an average of $813 to $1,957.

At some dental schools, students have faced steep tuition hikes in the course of 1 year. For instance, in the past year alone, tuition hikes of 34 percent at Emory University and of 50 percent at Northwestern University were approved. This fall, dental students at Fairleigh Dickenson University will face a 39-percent rise in tuition.

In light of recent trends by the Carter administration and by the Congress with regards to Federal capitation support for health professional schools, ASDA can only anticipate that tuition costs will continue to escalate sharply, as the loss of this source of income by the schools will most certainly be passed on to the dental student in the form of higher tuitions.

In fact, if President Carter's 1980 budget recommendation for capitation; that is, total abolition, is endorsed by the Congress, this will mean a loss of $1,072 per student for those schools still participating in the Federal capitation grant program. The recently approved rescission of 20 percent of current fiscal year capitation funding cut Federal grants to health professional schools from $1,390 per student to $1,072, according to the Department of Health, Education, and Welfare.

John Cooper, president of the American Association of Medical Colleges, claims that capitation grants comprise 8 percent of medical schools' operating revenues. Without that money, Cooper estimates that public medical schools would have to increase tuition 100 percent and private medical schools 25 percent.

Thus, tuition costs at health professional schools have been rising sharply and, more than likely, will continue to rise sharply in the coming decade. Aside from tuition, one must not neglect other dental educational expenses, such as costly instruments, textbooks, health service fees, clinic fees, as well as room and board.

To complicate matters, the amount of financial assistance available to meet these educational costs is extremely limited. Many dental schools have meager endowments for student aid, as per capita contributions from dental alumni are among the lowest of all professional schools within a university.

Also bear in mind that Armed Forces scholarships are no longer offered to dental students and that National Health Service Corps scholarships cater mainly to medical students. From academic year 1973-74 to 1977-78, only 198 NHSC scholarships were awarded to dental students, 2.2 percent of the total number of scholarships available. In the past year, roughly 400, or 12 percent, of the total number of NHSC scholarships were given to dental students.

With regards to alternate sizable sources of financial aid, in reviewing the most recent edition of *the Annual Register of Grant Support*, ASDA found only eight sources of direct aid for dental education. All of these programs bore restrictions of residency or of ethnicity.

Consequently, many dental students utilize Federal student aid programs to help finance their way through dental school; that is, if they still have borrowing capacity under these programs. Remember that by the time a student reaches professional school, he or she will have had to finance their undergraduate education in some manner.

Presently, there are four federally sponsored loan programs available to health professional students, two of which fall under the provisions of the Higher Education Act. Since all of these programs do have some bearing on the problems associated with the financing of health professional education, allow me to briefly discuss the two programs not directly related to the Higher Education Act before proceeding to the other two loan programs.

The health professions student loan was specifically designed for health professional students. It carries a simply 7 percent interest rate with Federal interest subsidy and has a loan ceiling of tuition plus $2,500 per year. However, Federal appropriations for this program, which peaked at $36 million for the academic years 1973-74 to 1975-76, have diminished to $9.8 million for the current fiscal year.

Although the Congress originally appropriated $19.8 million for HPSL for the 1978-79 academic year, it recently approved an administration request for rescission of $10 million of HPSL moneys. Prior to the $10 million rescission, a realistic loan ceiling of $2,000/year existed for the program. In his 1980 budget request, President Carter has asked that this program be scrapped entirely because these loan funds do not obligate students to serve in medically underrepresented areas.

This allegation is not entirely correct, as students may apply for 85 percent forgiveness of HPSL loans if they establish a practice in a federally designated health manpower shortage area.

The administration foresees that abolition of this source of aid would force many students to participate in the national health service corps or the health education assistance loan programs. Forcing students into either of these alternatives is ridiculous; the NHSC couldn't possibly accommodate the 5,000-plus dentists that graduate each year, whereas the HEAL program, as described by Kurt Kendis, associate director, Higher Education Finance Research Institution, University of Pennsylvania: "is the worst possible example of legislation with questionable benefits and great potential societal harm."

This brings us to the second federally sponsored loan program for health professional students, the health education assistance loan or HEAL. Under HEAL, predoctoral students are allowed to borrow up to $40,000, an additional $10,000 may be borrowed during residency training, a ceiling that would cover even the most exorbitant of dental school tuitions. However, one provision of HEAL disallows a student to have received a loan under the guaranteed student loan program for any part of the same academic year for which the HEAL loan is sought.

In addition, borrowers may be charged up to 12 percent interest per annum with interest accruing from the inception of the loan and being compounded semiannually. Should a student choose to defer interest payments while in school, unpaid interest will be added to the principal. Thus the borrower will end up paying interest on interest on interest.

ASDA's opposition to the HEAL program is well outlined in the supporting documents accompanying this testimony. Suffice it to say that the conditions of the loan are unjustifiably harsh, penalize young professionals at a time when they can least afford it, generate financial barriers to entry into the health professions, contain unfair restrictions, and limit career options of health professionals to income maximization only.

With regards to HEAL, ASDA fully supports the recommendation of Kurt Kendis, associate director, Higher Education Finance Research Institute, University of Pennsylvania:

> My final recommendation is to let the HEAL program die and to develop new borrowing plans under the student loan mechanisms of title IV of the Higher Education Act * * * Letting HEAL die, with an interim and temporary increase in capital availability in other programs, is a positive step in an inevitable and logical consolidation of the multiple loan programs which now present high levels of inefficiency in student finance. Only with loan consolidation and under the design of those in Congress responsible for education can our health professions students be served.

Now to focus on those programs which fall under the Higher Education Act.

The national direct student loan has been open to health professional students only since 1977. Although it has a theoretical loan ceiling of $10,000 for graduate students, $5,000 for undergraduates, because of its level of funding dental student NDSL loans are extremely limited and rarely exceed $750 per year. Beginning in 1968 with the Nixon administration, every budget, except the proposed 1980 budget, has asked that NDSL funds no longer be appropriated. The proposed 1980 budget asks for a 30-percent reduction in NDSL funding.

The federally insured student loan has been a cornerstone in many dental students' educational financing plans. However, students who take full advantage of this Federal loan program are limited by a ceiling of $15,000 over a 4-year period, a ceiling which is inadequate in the light of many dental school tuitions.

Before the advent of HEAL, most dental students relied on a loan package that contained a combination of NDSL, FISL, and HPSL moneys, with borrowing capacity in FISL and NDSL partly limited by the extent to which these programs were used by the student as an undergraduate and partly by the degree to which these programs were funded federally.

When originally developed, HEAL was promoted as a last resort source of funding for the financially burdened health professional student. However, the provision within HEAL which stipulates mutual exclusivity of HEAL and GSLP loans, funding cuts in NDSL, HPSL, and capitation in the proposed 1980 budget and recent trends in the costs of dental education all point to the dire possibility of HEAL becoming the only source of financing available to the Nation's health professional students.

In our opinion, the financing of health professional education has reached crisis proportions. Today, we have a situation where the costs of obtaining a dental education are driving many families into burdensome debt, limiting the best in education to the affluent, and denying access to professional training to well-qualified students with limited financial means.

In fact, recent statistics compiled by the division of educational measurements of the council on education on the American Dental Association show that there has been a significant decline in the number of applicants to dental school from the socioeconomic lower middle class, a trend that the council on education believes is due to increased tuition.

Furthermore, at some health professional schools, students are required to prove they can meet total expenses by submitting parents' income tax statements as part of the application process. Such practices indicate that at some schools the dividing line for entry into the health professions is not ability but ability to pay.

To enable students to effectively deal with the problems associated with the financing of health professional education, the ASDA wishes to make the following recommendations to the Postsecondary Education Subcommittee:

First, all existing Federal student aid programs should be consolidated;

Second, interest provisions should remain identical to those associated with the guaranteed student loan program. That is, interest should be 7 percent simple interest with Federal subsidy of interest payments while the student is in school;

Third, certain payback provisions of the GSLP should be maintained, namely, no payment on principal or interest by the borrower while in school and a 9-month grace period after graduation before repayment begins.

One change we would recommend, in light of the high loan ceiling proposed, is that repayment be graduated over time relative to the borrower's income. The average salary of recent dental graduates in hospital based general practice residencies is $12,000, while their counterparts in the private sector will earn roughly $18,000. And all dentists face costly initial equipment investment expenses which average $60,000.

Couple these costs with those of establishing a family and it becomes obvious that a graduated and extended repayment plan is necessary, and fourth, we recommend that the thrust of Federal policy should be to support the student rather than to support the university.

Before closing, a few comments on default rates under Federal student aid programs would be in order. ASDA is aware that the overall default rate of the guaranteed student loan program is 10 percent and the national direct student loan program is 18 percent. However, according to the Washington Post, March 6, 1979, certain schools, such as community colleges, trade schools, and predominantly black colleges, have considerably higher default rates than other schools.

This is partly attributed to the high dropout rate these schools experience and partly to the lack of adequate attempts on behalf of the schools to collect the money. ASDA would agree with the recommendation of HEW Secretary, Joseph Califano, that institutions with default rates higher than 10 percent should be disqualified from receiving further Federal student aid monies.

To the best of our knowledge, health professional students represent a good credit risk. According to statistics from the Office of Education, HEW, the default rate on the health profession student loan program, which has been operational since 1965, is less than 1 percent. When we attempted to get a breakdown on the FISL default rate, that is, what percentage of health professional students had defaulted, we were told that although this information could be determined, it would require a congressional inquiry.

I am hopeful that this testimony has provided some insights into the grave problems that today's health professional students are facing with regard to financing their education. Perhaps this situation was best assessed by John Silber, president of Boston University, when he wrote in the *Atlantic Monthly*, July 1978:

> Something fundamental must be done and done soon if America is not to default on its national commitment to equal educational opportunity. Unless comprehensive steps are taken in the financing of higher education * * * increasing numbers of academically qualified students will be denied access and choice in higher education simply because the costs will prove unmanageable.

[The full statement of Michael Chisick follows:]

AMERICAN STUDENT DENTAL ASSOCIATION
211 EAST CHICAGO AVENUE, CHICAGO 60611
312/440-2795
ASDA

May 28, 1979

Statement to

Postsecondary Education Subcommittee
U.S. House of Representatives

on

Student Loan Programs Authorized
By the Higher Education Act
(Graduate Student Loan and Na-
Direct Student Loan Programs)

by

Michael C. Chisick, D.M.D.
President and Chairman
Board of Directors
American Student Dental Association
211 East Chicago Avenue
Chicago, Illinois 60611

Mr. Chairman, distinguished members of the Congress, ladies and gentlemen:

As President and Chairman of the Board of Directors of the American Student Dental Association, I am here on behalf of the more than 16,000 dental students, who are members of the ASDA, to present our views on student loan programs authorized by the Higher Education Act. At the outset, let me express my sincere appreciation to the Postsecondary Education Subcommittee for allowing me this opportunity.

According to The Economist (September 16, 1978), costs of tuition, board and lodging at American colleges and universities have risen 77% in the past decade. As members of this subcommittee are undoubtedly aware, this sharp increase in costs has not been offset by equivalent increases in available financial assistance. As a result, many students and their families are undergoing considerable strain to meet these increased educational expenses. Indeed, as Senator Edward Kennedy pointed out in a letter this fall to The Boston Globe (November 15, 1978), "On the average, parents spend 13% of their gross income to send a child to a public college and over 26% of their gross income to send a child to a private college."

However, consider the situation which confronts those families that send a child on to a health professional school. Not only do they face an additional four years of sacrifice, but they also may face educational expenses of a magnitude far greater than those of an undergraduate education. This is especially true for students who attend private dental colleges or who are nonresidents at a state supported dental school. For example, estimated total expenses for freshmen entering Harvard College this fall are $8,300. By contrast, first-year students at the Harvard School of Dental Medicine and at the Tufts School of Dental Medicine will face estimated total first-year expenses of $12,500 and $19,900, respectively.

Aside from sheer magnitude, tuitions at the nation's health professional schools are rising at a dramatically sharper rate than at the nation's undergraduate colleges. A recent survey by the American Association of Dental Schools revealed that average tuition for all U.S. dental schools rose from $1,435 to $3,468, or 142%, in the past six years! Furthermore, of the three classifications of dental schools--private, private-state related, and public--the highest dollar amounts were reported by private schools, whose average tuitions increased by 149%, from $2,439 to $6,061. In comparison, although public schools experienced average increases of almost the same percentage (141%) as did the private schools, their figures in dollar amounts remained significantly lower, rising from an average of $813 to $1,957.

At some dental schools, students have faced steep tuition hikes in the course of one year. For instance, in the past year alone, tuition hikes of 34% at Emory University and of 50% at Northwestern University were approved. This fall, dental students at Fairleigh Dickenson University will face a 39% rise in tuition.

In light of recent trends by the Carter Administration and by the Congress with regards to Federal capitation support for health professional schools, ASDA can only anticipate that tuition costs will continue to escalate sharply, as the loss of this source of income, by the schools, will most certainly be passed on to the dental student in the form of higher tuitions. In fact, if President Carter's 1980 budget recommendation for capitation, i.e. total abolition, is endorsed by the Congress, this will mean a loss of $1,072 per student for those schools still participating in the Federal capitation grant program (The recently approved recision of 20% of current fiscal year capitation funding cut Federal grants to health professional schools from $1,390 per student to $1,072

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Thus, tuition costs at health professional schools have been rising sharply and, more than likely, will continue to rise sharply in the coming decade. Aside from tuition, one must not neglect other dental educational expenses, such as costly instruments, textbooks, health service fees, clinic fees, as well as room and board.

To complicate matters, the amount of financial assistance available to meet these educational costs is extremely limited. Many dental schools have meager endowments for student aid, as per capita contributions from dental alumni/ae are among the lowest of all professional schools within a university. Also bear in mind that Armed Forces Scholarships are no longer offered to dental students and that National Health Service Corps Scholarships cater mainly to medical students. From academic year '73-'74 to '77-'78, only 198 NHSC scholarships were awarded to dental students (2.2% of the total number of scholarships available). In the past year, roughly 400 or 12% of the total number of NHSC scholarships were given to dental students. With regards to alternate sizeable sources of financial aid, in reviewing the most recent edition of *The Annual Register of Grant Support*, ASDA found only eight sources of direct aid for dental education. All of these programs bore restrictions of residency or of ethnicity.

Consequently, many dental students utilize Federal student aid programs to help finance their way through dental school, i.e. if they still have borrowing capacity under these programs. Remember that by the time a student reaches professional school, he or she will have had to finance their undergraduate education in some manner.

Presently, there are four Federally sponsored loan programs available to health professional students, two of which fall under the provisions of the Higher Education Act. Since all of these programs do have some bearing on the problems associated with the financing of health professional education, allow me to briefly discuss the two programs not directly related to the Higher Education Act before proceeding to the other two loan programs.

The *Health Professions Student Loan* was specifically designed for health professional students only. It carries a simple 7% interest rate with Federal interest subsidy and has a loan ceiling of tuition plus $2,500 per year. However, Federal appropriations for this program, which peaked at $36 million for the academic years '73-'74 to '75-'76, have diminished to $9.8 million for the current fiscal year. (Although the Congress originally appropriated $19.8 million for HPSL for the '78-'79 academic year, it recently approved an Administration request for recision of $10 million of HPSL monies.) Prior to the $10 million recision, a realistic loan ceiling of $2,000/year existed for the program. In his 1980 budget request, President Carter has asked that this program be scrapped entirely because "these loan funds do not obligate students to serve in medically underrepresented areas." This allegation is not entirely correct, as students may apply for 85% forgiveness of HPSL loans if they establish a practice in a Federally designated health manpower shortage area.

The Administration foresees that abolition of this source of aid would force many students to participate in the National Health Service Corps or the Health Education Assistance Loan programs. Forcing students into either of these alternatives is ridiculous; the NHSC couldn't possibly accomodate the 5,000+ dentists that graduate each year, whereas the HEAL program, as described by Kurt Kendis, Associate Director, Higher Education Finance Research Institute, University of Pennsylvania, "is the worst possible example of legislation with questionable benefits and great potential societal harm."

This brings us to the second Federally sponsored loan program for health professional students--the Health Education Assistance Loan or HEAL. Under HEAL, predoctoral students are allowed to borrow up to $40,000 (an additional $10,000 may be borrowed during residency training), a ceiling that would cover even the most exorbitant of dental school tuitions. However, one provision of HEAL disallows a student to "have received a loan under the Guaranteed Student Loan program for any part of the same academic year for which the HEAL loan is sought." In addition, borrowers may be charged up to 12% interest per annum with interest accruing from the inception of the loan and being compounded semiannually. Should a student choose to defer interest payments while in school, unpaid interest will be added to the principal. Thus the borrower will end up paying interest on interest on interest!

ASDA's opposition to the HEAL program is well outlined in the supporting documents accompanying this testimony. Suffice it to say that the conditions of the loan are unjustifiably harsh, penalize young professionals at a time when they can least afford it, generate financial barriers to entry into the health professions, contain unfair restrictions, and limit career options of health professionals to income maximization only.

With regards to HEAL, ASDA fully supports the recommendation of Kurt Kendis, Associate Director, Higher Education Finance Research Institute, University of Pennsylvania: "My final recommendation is to let the HEAL program die and to develop new borrowing plans under the student loan mechanisms of Title IV of the Higher Education Act...Letting HEAL die, with an interim and temporary increase in capital availability in other programs, is a positive step in an inevitable and logical consolidation of the multiple loan programs which now present high levels of inefficiency in student finance. Only with loan consolidation and under the design of those in Congress responsible for education can our health professions students be served."

Now to focus on those programs which fall under the Higher Education Act.

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The Federally Insured Student Loan has been a cornerstone in many dental students' educational financing plans. However, students who take full advantage of this Federal loan program are limited by a ceiling of $15,000 over a four year period--a ceiling which is inadequate in the light of many dental school tuitions.

Before the advent of HEAL, most dental students relied on a loan package that contained a combination of NDSL, FISL, and HPSL monies (with borrowing capacity in FISL and NDSL partly limited by the extent to which these programs were used by the student as an undergraduate and partly by the degree to which these programs were funded Federally). When originally developed, HEAL was promoted as a "last resort" source of funding for the financially burdened health professional student. However, the provision within HEAL which stipulates mutual exclusivity of HEAL and GSLP loans, funding cuts in NDSL, HPSL, and capitation in the proposed 1980 budget, and recent trends in the costs of dental education, all point to the dire possibility of HEAL becoming the only source of financing available to the nation's health professional students.

In our opinion, the financing of health professional education has reached crisis proportions. Today, we have a situation where the costs of obtaining a dental education are driving many families into burdensome debt, limiting the best in education to the affluent, and denying access to professional training to well-qualified students with limited financial means. In fact, recent statistics compiled by the Division of Educational Measurements of the Council on Education of the American Dental Association show that there has been a significant decline in the number of applicants to dental school from the socio-economic lower middle class--a trend that the Council on Education believes is due to increased tuition. Furthermore, at some health professional schools, students are required to prove they can meet total expenses, by submitting parent's income tax statements, as part of the application process. Such practices indicate that at some schools, the dividing line for entry into the health professions is not ability, but ability to pay.

To enable students to effectively deal with the problems associated with the financing of health professional education, the ASDA wishes to make the following recommendations to the Postsecondary Education Subcommittee: 1) All existing Federal student aid programs should be consolidated, 2) Interest provisions should remain identical to those associated with the Guaranteed Student Loan Program. That is, interest should be 7% simple interest with Federal subsidy of interest payments while the student is in school, 3) Certain payback provisions of the GSLP should be maintained--namely, no payment on principal or interest by the borrower while in school and a 9 month grace period after graduation before repayment begins. One change we would recommend, in light of the high loan ceiling proposed, is that repayment be graduated over time relative to the borrower's income. The average salary of recent dental graduates in hospital based general practice residencies is $12,000, while their counterparts in the private sector will earn roughly $18,000. And all dentists face costly initial equipment investment expenses which average $60,000. Couple these costs with those of establishing a family and it becomes obvious that a graduated and extended repayment plan is necessary, and 4) We recommend that the thrust of Federal policy should be to support the student rather than to support the university.

Before closing, a few comments on default rates under Federal student aid programs would be in order. ASDA is aware that the overall default rate of the Guaranteed Student Loan Program is 10% and the National Direct Student Loan Program is 18%. However, according to The Washington Post (March 6, 1979), certain schools, such as community colleges, trade schools, and predominantly black colleges, have considerably higher default rates than other schools. This is partly attributed to the high drop out rate these schools experience and partly to the lack of adequate attempts on behalf of the schools to collect the money. ASDA would agree with the recommendation of HEW Secretary, Joseph Califano, that institutions with default rates higher than 10% should be disqualified from receiving further Federal student aid monies.

To the best of our knowledge, health professional students represent a good credit risk. According to statistics from the Office of Education, HEW, the default rate on the Health Profession Student Loan Program, which has been operational since 1965, is less than 1%. When we attempted to get a breakdown on the FISL default rate i.e. what percentage of health professional students had defaulted, we were told that although this information could be determined, it "would require a Congressional inquiry."

I am hopeful that this testimony has provided some insights into the grave problems that today's health professional students are facing with regard to financing their education. Perhaps this situation was best assessed by John Silber, President of Boston University, when he wrote (Atlantic Monthly, July 1976): "Something fundamental must be done--and done soon--if America is not to default on its national commitment to equal educational opportunity. Unless comprehensive steps are taken in the financing of higher education...increasing numbers of academically qualified students will be denied access and choice in higher education simply because the costs will prove unmanageable."

Respectively submitted,

Michael C. Chisick

Michael C. Chisick, D.M.D.

BULLETIN OF DENTAL EDUCATION

VOLUME 12, NUMBER 5 AMERICAN ASSOCIATION OF DENTAL SCHOOLS MAY 1979

U.S. DENTAL TUITIONS RISE 142% IN SIX YEARS

A recent AADS survey has revealed that average tuition for all U.S. dental schools rose from $1,435 to $3,468 during academic years 1973 through 1979, an increase of 142 percent. The biggest jump—24.3 percent—occurred between academic years 1973 and 1974. Percentages of increase between other academic years were: from 1974 to 1975—9.4 percent; 1975 to 1976—11.3 percent; 1976 to 1977—18.0 percent; 1977 to 1978—16.0 percent; and 1978 to 1979—14.8 percent. Even if the University of Colorado's extremely high tuition is excluded when figuring the average increases (although Colorado waives 87.5 percent of tuition for its students who serve in selected areas of the state upon graduation), the total average increase over the six-year period was from $1,435 to $3,255, or 127 percent. (All other figures listed here are computed to include Colorado's tuition.) The 1978 figures include tuition and general fees. For earlier years, general fees were apparently often, but not consistently, included in tuition totals.

Somewhat surprisingly, private state-related schools showed the highest percentage increase during the six years (up from $1,839 to $4,867, or 165 percent). The highest dollar amounts were reported by other private schools, whose average tuitions increased by 149 percent, from $2,439 to $6,061. Tuition increases for all private schools averaged 147 percent (up from $2,264 to $5,584). Although public schools experienced average increases of almost the same percentage (141 percent) as the private schools did, their figures in dollar amounts remained significantly lower, rising from an average of $813 to $1,957.

A more detailed report of the survey findings is scheduled to be published in the August 1979 *Journal of Dental Education*.

1979 ANNUAL SESSION ATTENDANCE SETS NEW RECORD

Attendance at the 1979 AADS Annual Session on March 25-28 in New Orleans reached an all-time record total of 1,657 registered participants. That figure topped the previous record of 1,643 who attended the 1976 session in Miami Beach. Of this year's registrants, 1,100 were AADS members, 54 were nonmembers, 121 were speakers and guests, 239 were delegates, and 143 were students.

Other attendance figures over the past several years (not including spouses or "no-shows") have been: 1973—1,426 (Washington, D.C.); 1974—1,466 (Atlanta); 1975—1,488 (San Francisco); 1977—1,309 (Las Vegas); and 1978—1,569 (Washington, D.C.).

The 1980 Annual Session will be held on March 23-26 at the Los Angeles Bonaventure Hotel.

PHARMACOLOGY CURRICULUM CONFERENCE

Members of the AADS Section on Pharmacology and Therapeutics met recently with representatives of various dental and medical school pharmacology departments to discuss and prepare guidelines for a curriculum in pharmacology. The conference was held in New Orleans on March 23-24 and was made possible by a generous grant from the Warner-Lambert Company which underwrote all expenses for the ten invited participants from the AADS section.

At the conclusion of the conference, participants had agreed on minimally acceptable pharmacology course criteria. In addition, they had developed an outline of subject areas to be covered, defined a minimum number of hours needed to cover those areas, and written statements justifying the necessity for including each area in a dental school pharmacology course. The guidelines will soon be submitted to the Council of Sections Administrative Board for review.

AFDH REVENUES UP 50%

The American Fund for Dental Health recently reported 1978 contributions and revenues totaling $2,727,000, a 50 percent increase over the 1977 figure and up 104 percent from 1976. The 1978 figure establishes a new Fund record. The Fund in 1978 also reduced the percentage of income needed for fund-raising and general management. A greater percentage of dollars ($2,386,000, or 87.5 percent of the total) therefore was channeled into support for AFDH programs and for dental research, education, and service.

HEAL TAKES A BEATING

**The federal government's
newest education loan program
comes under attack
at Philadelphia hearings.**

Responsible individuals should prepare a program of education assistance — not permit education assistance to become a tool for manpower allocation.

Testimony by Kurt Kendis

The HEAL program, as the newest and most extreme element of the movement toward large and burdensome student debt, is the worst possible example of legislation with questionable benefits and great potential societal harm.

HEAL is *nothing* it is alleged to be. The name of the program is a deception. As a device designed by the health manpower interests, the legislation is a set of incentives to encourage young health professionals to enter the Public Health Service Corps. The program is *not* education assistance; it was never intended to assist students or education in general. HEAL is intended to present a very expensive alternative to the corps, which will pay all the bills.

The alternative is to bear the total cost through debt — debt with full interest cost and high repayments.

HEAL debt levels, given the compounding and accrual of interest which most students will face, are far greater than the seemingly comparable education debts we have grown used to in the Guaranteed Student Loans. A 12 percent HEAL loan (and given recent interest rate trends it is reasonable to talk in terms of 12 percent) will compound and accrue a $50,000 note to a $72,000 indebtedness.

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HEAL penalizes young professionals at a time when they can least afford it — during the initial stages of their careers.

Testimony by Michael Chisick

The difficulties students and their parents face in financing higher education have reached crisis proportions. This crisis is particularly acute for the health professions. Over the past decade tuition costs have risen sharply at both state-supported and private dental colleges. However, the most severe increases in tuition have occurred at private institutions. For instance, in the past year alone, tuition hikes of 34 percent at Emory University and of 50 percent at Northwestern University were approved.

In many dental schools the amount of financial assistance to meet these increased educational costs is very limited. As a result many dental students use the Federally Insured Student Loan Program to help finance their way through dental school. However, students who take full advantage of the present federal loan program are limited by a loan ceiling of $15,000 over a four-year period — a ceiling which is inadequate for many dental schools.

Today the costs of obtaining a dental education are driving many families into debt, limiting the best in education to those with the largest wallets, and denying access to professional training to well-qualified students with limited

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HEAL (the Health Education Assistance Loan Program) is a loan program students don't like. It provides loan money at a 12 percent annual interest rate, and the unpaid interest becomes part of the principal. Students who receive HEAL loans may not utilize other federal loan programs.

Since HEAL went into effect September 15, 1978, there have been seven public hearings to get public reaction to three provisions of the program that won't go into effect until 1979. They are the nonstudent approval process, service contracts for shortage areas, and borrower default.

Lynne Laverentz, project officer for HEAL, says that there was very little testimony at the public hearings concerning these three provisions. Testimony, she said, generally opposed the program itself, and that can only be changed through legislation. "The hearings," Laverentz said, "will probably have little impact on the HEAL program."

Ralph van Brocklin, U Penn '81, is chairman of ASDA's Ad Hoc Committee on the HEAL Program. Van Brocklin says that ASDA is planning a letterwriting campaign to its members, individual congressmen and to Senator Ted Kennedy. Students will be contacted about this in February. He also said that all dental schools' student councils will be notified and given copies of the HEAL bill.

As of December 1, 1978, several dental schools had already said they would not participate in the HEAL program: West Virginia, Illinois, New York University, Boston, Harvard, SUNY at Buffalo, and Texas at Houston.

Opposition to HEAL is mounting. Testimony below was given in Philadelphia on November 17, 1978. □

For those of us from lower middle class families, this seems more like cruel and unusual punishment than financial aid!

Testimony by Michele Saunders

In Subpart A Sec. 126.1 Par. (a) of the HEAL program, it is stated that the "basic purpose of the program is to encourage lenders to make loans to students in these fields who desire to borrow money for their educational costs." By making this the primary purpose of the program, Congress has created a situation whereby the lenders benefit and the students are penalized and given an unfair financial burden. By allowing an interest rate that overrides state and federal usury laws restricting interest charges on loans to be less than 12 percent, and by further allowing this interest to accrue from the date of the loan and to be compounded twice a year and added to the principal, and by allowing the lender to require the student to pay interest while in school, Congress has indeed made the program attractive to prospective lenders. The student, on the other hand, is placed in a situation where she or he, given residency programs and the like, might end up paying quadruple the amount of the loan. For those of us who come from lower middle class families, this seems more like cruel and unusual punishment than financial aid!

Shouldn't the main thrust of this program be that any

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The results of HEAL are contrary to the goals espoused by the government: the provision of sufficient health services to meet the needs of *all* the nation's people.

Testimony by Ralph Jay Van Brocklin

The HEAL program will have profound deleterious effects on the students it ostensibly is meant to benefit, and the provisions of this bill will be detrimental to the best interests of the nation's people.

Health professional students are concerned and unhappy with these clauses within the HEAL bill.

126.5(g) In order to receive a HEAL loan, a student must "not have received a loan under the guaranteed student loan program for any part of the same academic year for which the HEAL loan is sought."

126.11(d) *Minimum annual repayment.* "During each year of repayment, a borrower's payments to all holders of his or her HEAL loans must total at least $600 or a sum equal to the interest that accrues during the year on all of the loans, whichever is greater."

126.13(a)(1) *Rate.* "Interest that is calculated on a fixed rate basis may not exceed 12% per year on the unpaid principal balance of the loan."

126.13(b) *Compounding of interest.* "As a general rule, unpaid interest must be compounded semiannually and added to principal. However, a lender that permits a bor-

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Kendis testimony

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Another point involves the social responsibility of massive student debt. Student borrowers are not consumer borrowers. Educational debt should never be considered a consumer loan. Clearly, the overall good to society of an educated population has been the motivation for grants and loan assistance. But there has always in the past been a responsibility to the student who, for all intents and purposes, cannot be expected to know about debt as an adult earner/borrower knows about debt. Thus student debt has always been limited, subsidized, and managed through long repayments. Under HEAL, however, the first year's repayment of a full $72,000 indebtedness will be almost $10,000, and this will fall on the shoulders of young health professionals beginning their financial lives, starting a practice and making a home. I contend that the equity considerations which have always characterized student lending programs are brutally absent from HEAL.

In place of sensitivity to student borrowers (as differentiated from consumer borrowers) HEAL may generate a number of behavior patterns, none of which is in society's best interest.

First, by permitting the accumulation of large debt by what can best be described as naive borrowers, we are training a set of individuals to be risk seekers in their financial affairs instead of risk averse or risk neutral as most young people are when entering the labor force. Health professionals, traditionally have been financial conservatives. I contend we are encouraging a turnaround of attitudes of an entire segment of society by providing unbridled and uncounseled access to large debt.

Second, in the face of huge debts, the young health professional with all inclination to do community work *pro bono* or public service will consider his financial needs first, and choose those

Guidelines to HEAL

Fred Weiner
University of Illinois '81

What is HEAL? Heal is the Health Education Assistance Loan Program. HEAL is a program of federal insurance of educational loans designed for students in the fields of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, podiatry, pharmacy, and public health.

How much can be borrowed? Eligible students may borrow up to $10,000 principal for each academic year, up to a total principal-amount of $50,000.

Interest Rate and Insurance Premium. The interest rate at the lender's option, may be calculated on a fixed ratio or on a variable ratio basis. The interest rate, by either plan cannot exceed 12 percent per year on the unpaid balance. If a borrower is allowed to postpone payment, the unpaid interest may be compounded semiannually and allowed to accrue. This can be seen in Example #2, Table I. In addition, the Commissioner of Education insures each lender of HEAL against losses it may suffer if the borrower defaults. The Commissioner charges the lender an insurance premium which the lender charges the borrower. The rate of insurance premium is one fourth of 1 percent per year of the loan principal. This is illustrated in Example #2, Table I.

Terms of Repayment. The repayment period begins the first day of the 11th month after the borrower ceases to be a full-time student at a HEAL school. The borrower is allowed not less than 10 years and not more than 15 years to repay, calculated from the beginning of the repayment period. However, a grace period is allowed if a borrower continues his education. Furthermore, a special contract between the borrower and the Commissioner of Education can be made. Under the contract, the borrower agrees to serve for at least 2 years in a health manpower shortage area, as a member of the National Health Service Corps, or as a private practitioner. The Commissioner agrees to pay an amount not to exceed $10,000 per year to the holder of the borrower loan to be applied toward interest and principal.

Who is eligible? To become eligible a borrower must be a permanent citizen to the United States and be in good standing as a full time student in a HEAL school. The borrower may not have received a loan under the Guaranteed Student Loan Program for any part of the same academic year for which the HEAL is sought. It is the responsibility of the schools to make sure that no more than 50 percent of their students in each class are authorized to receive new loans each 12-month academic year.

HEAL was initially planned by the Georgetown and University of Washington Schools of Medicine. The final provisions were made by the Bureau of Student Financial Assistance of the Office of Education. Information, copies of the rules and regulations of the program, and written comments should be addressed to HEAL Program/P.O. Box 23022/ L'Enfant Plaza/ Washington D.C. 20024. □

career paths which will generate income. Thus HEAL will discourage the same voluntary public service work that the legislation hoped to ensure.

Third, those HEAL debtors who enter into health profession fields (with large debts) are being conditioned as true entrepreneurs — the income maximizers which we believe to be proper in the business world. I do not feel that it is in the best interests of health care delivery in the United States to be conditioning our future health professionals to maximize their incomes rather than to serve their clients. I contend that the HEAL loan program *limits the options* of our young professionals to income maximization and only income maximization. As health care delivery pricing works in the United States today, our physicians are not only the setters of the price for their own services, but they are also the determinants for the use of hospitals, pharmaceuticals, and specialists. It is incumbent upon those who design public programs to consider the psychological impact on these physicians: men and women whose professional devotion to their work should always receive a greater consideration than the resultant earnings. Can we be assured that this behavior will persist when we load the students with debt? I believe we cannot. I feel that the debt burden imposed by the HEAL program — imposed early in the lives of young professionals — will have devastating consequences for overall medical costs because of the behavioral consequences of this early conditioning.

TABLE 1

EXAMPLES OF THE BORROWER'S REPAYMENT OBLIGATION UNDER THE HEAL PROGRAM

EXAMPLE 1   Approximate Monthly Payment based on a 10 year repayment period at a fixed rate of 10%, 11% or 12% simple interest per year. (With interest paid as you go)

MONTHLY PAYMENTS

AMOUNT OF TOTAL DEBT	10% In School (Interest Only)	10% In Repayment (10 yrs. 120 Pays.)	11% In School (Interest Only)	11% In Repayment (10 yrs. 120 Pays.)	12% In School (Interest Only)	12% In Repayment (10 yrs. 120 Pays.)
$ 5,000	$ 42	$ 66	$ 46	$ 69	$ 50	$ 72
10,000	83	132	92	138	100	143
15,000	125	198	137	207	150	215
20,000	167	264	183	276	200	287
25,000	208	330	229	344	250	358
30,000	250	396	275	413	300	430
35,000	292	463	321	482	350	502
40,000	333	529	367	551	400	574
45,000	375	595	412	620	450	646
50,000	417	661	458	689	500	717

* Students, at the option of the lender, may defer interest payments prior to the repayment period. If this is done, however, this interest may be compounded (up to 6 months) and added to the principal amount borrowed. This will add significantly (in the hundreds of dollars) to the monthly payment during the repayment period.

EXAMPLE 2   Student borrows $8000 each year for 4 years at 12% interest, compounded every 6 months and allowed to accrue.

	In School Year 1	In School Year 2	In School Year 3	In School Year 4	Internship/Residency Year 5	Internship/Residency Year 6	Internship/Residency Year 7	Grace Period Year 8
● Amount Borrowed	8,000	8,000	8,000	8,000				
● Accrued Interest	[illegible]	[illegible]	[illegible]	[illegible]				

TOTAL INTEREST ON LOAN 1 — $12,325

TOTAL INTEREST ON LOAN 2 — $10,087

TOTAL INTEREST ON LOAN 3 — No Payments Interest Accruing — $ 8,096

TOTAL INTEREST ON LOAN 4 — $ 6,327

● Total Interest Accruals and Payable — $36,835

● Insurance Premium: [illegible] — $ 78 $ 69 $ 49 $ 26

● Net Proceeds Available for Educational Expenses — $7,922 $7,931 $7,951 $7,974

● Principal of Loans — $32,000

● Net Proceeds Available for Educational Expenses — $31,778

● Accrued Interest — 36,835

● Principal + Accrued Interest — 68,835

● Repayment of $68,835 over 15 years at 12% = $826.16 per month

● Total of Payments — $148,709

NOTE: (These examples are not meant to be exhaustive. We cannot, for example, provide a meaningful chart of possible repayment obligations for a variable interest rate.

We thus have incentives, within what appears to be a simple student program, which signal an eventual impact on health care cost in the United States. The most serious component of these behavioral incentives is the time bomb they represent. A young student beginning medical school in 1978 will not practice under circumstances where he can set his own fees for probably a period of ten years or more. HEAL is actually a health care legacy for future generations to absorb in the quality or price of medical services they receive.

We also need to consider our system of financing education in America. Parents have always sought to provide an educational endowment for their children and thus an intergenerational transfer of wealth through the responsibility they assume for all or part of educational costs. In case of financial need, the government provides grants or subsidized loans in balance with the concept of student self-help. Even in 1978, as costs for health professions education are severe, we have statistical evidence that American families continue to contribute significantly to the cost of education — often at a level known to be a sacrifice to them. We thus continue to rely on the American family, to the extent possible, as a foundation for the financing of higher education. By promoting loans for the full costs of education (and believe me the banks will *promote* the HEAL loans) we essentially create a turnabout in education finance. The role of the family will diminish — along with the role of government — and again business or entrepreneurial attitudes will come to dominate the early conditioning of our health professionals. Since these loans are not subsidized, the role of the government in ameliorating the

HEAL is nothing it is alleged to be. The name of the program is a deception.

impact of this debt disappears — a moderation always in consideration of the social benefits to education — and the government bears the responsibility of the eventual social costs.

An ideal loan plan to health professionals is quite simple. It should subsidize interest cost for students while in school, postpone principal during residency, and graduate and extend repayments when in practice. But HEAL will not be ideal due to statutory limitations, and only three recommendations are possible.

First, repayments must be graduated to ease the burden in the early years. I am aware that this is *possible* in the regulations, but I also know that there currently are no concrete plans to use graduated repayments. I feel that the choice of graduated repayments must be made mandatory.

Second, an obligation must be given to the originator of the loans to counsel the student as to his obligations under the program. This counseling is so essential that an administrative allowance must be made available to develop counseling tools and procedures.

Third, forbearance and restructuring of the repayments is absolutely essential with this type of program. Not only the obvious case of the dropout or nondegree earner but also the inevitable human events which put pressure on all walks of society must fall within a comprehensive and equitable program of repayment forbearance. Debt levels are so high and the terms cover so many years that a detailed forbearance plan is required, particularly under a plan containing a bankruptcy exclusion. Without comprehensive forbearance, HEAL becomes a program of indentured servitude.

These recommendations may lessen the burdens of HEAL — the inequities — or the social costs. But my final recommendation is to let the HEAL program die and to develop new borrowing plans under the student loan mechanisms of Title IV of the Higher Education Act. The HEAL law did not come from the education subcommittees of the Congress. Responsible individuals in education should prepare a program of education assistance — not permit education assistance to become a tool for manpower allocation.

Letting HEAL die, with an interim and temporary increase in capital availability in other programs, is a positive step in an inevitable and logical consolidation of the multiple loan programs which now present high levels of inefficiency in student finance. Only with loan consolidation and under the design of those in Congress responsible for education can our health professions students be served. ☐

Kurt Kendis is a policy analyst and associate director of the Higher Education Finance Research Institute at the University of Pennsylvania.

Chisick testimony

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financial means. In fact, recent statistics compiled by the Division of Educational Measurements of the Council on Education of the American Dental Association show that there has been a significant decline in the number of applicants to dental school from the socio-economic lower middle class — a trend that the Council on Education believes is due to increased tuition.

It is distressing to witness the federal government establish something like the Health Education Assistance Loan (HEAL) Program as a means of

An analyst's footnote on a failing legislative program

Kurt L. Kendis, policy analyst, Higher Education Finance Research Institute, University of Pennsylvania.

We take a great deal of enjoyment at home in the breeding and raising of purebred dogs — old english sheep dogs and german shepherds. The time is quite important with purebred puppies most marketable at Christmas and early summer. When the females are ready to breed, there is always danger of unintentional crossbreeding when a shepherd stud mates with a sheep dog. The choice is not complex. We can quickly abort the female with little physical strain on her, but disorienting the timing of her next litter. Or we can let her go to term, raise the babies, and be forced to give away puppies nobody will buy.

The HEAL loan program was begotten out of the crying need for additional capital access by health professions students, and sired, originally as Super-FISL, by the health manpower legislation. This ill-fated breeding (certainly without romance) could have been easily terminated with an analytic simulation showing the burden on students, a survey of institutions revealing overwhelming displeasure with the plan, or a canvassing of lending institutions revealing a reluctance to participate. But instead the program went through the legislative process and now there are no takers in the marketplace.

Hopefully those responsible for the generation of the future loan programs must know that a student loan is an education issue and not a manpower allocation tool. Likewise, the analysis should indicate whether or not the program will work when in place — particularly after investing administrative time and energy developing a program. Finally, despite an absolute immediate need for additional capital access, a loan program with no lenders now is not comparable to a better program in six months with lenders. The price in this case appears not six months, but much longer.

Only purebred puppies sell. ☐

addressing financial burdens of health professional students. Although a student may borrow up to $50,000 under the HEAL program, a loan ceiling that would cover even the most exorbitant of dental school tuitions, borrowers may be charged up to 12 percent interest per annum with interest accruing from the inception of the loan and being compounded semiannually.

These loan conditions are unjustifiably harsh. They penalize young professionals at a time when they can least afford it — during the initial stages of their careers. At the beginning of their careers, many professionals still hold debts incurred from their undergraduate college education as well as their predoctoral training. Furthermore, some dentists face the added costs of postdoctoral education and all dentists face costly initial equipment investment expenses. (Initial start-up costs for dental practitioners average $60,000.) To worsen matters, the conditions of the Health Education Assistance Loan — 12 percent per annum compounded semiannually — would lead to a doubling of the principal in as short a time as five to six years. It is hard to imagine how the prospects of a debt-ridden future will not lead to financial barriers to those desiring a health professional education or to increased health care costs for consumers.

Two additional criticisms deserve attention. First, HEAL borrowers are not allowed to borrow money from more favorable federal loan programs. Second, schools which do not receive federal capitation grants cannot act as lenders in the program. Both of these restrictions are unfair to professional students. Borrowers are denied the privilege of using more favorable sources of federal student aid. With regards to capitation, students who are enrolled in schools which do not receive federal capitation grants are usually those individuals who are in greatest need of financial assistance.

In summation, the American Student Dental Association wishes to go on record in opposition to the HEAL program as currently designed. The conditions of the loan are unjustifiably harsh, generate financial barriers to entry into the health professions, encourage increased health care costs to the consumer, and contain unfair restrictions. We alternatively recommend the Office of Education of the Department of Health, Education, and Welfare to raise the loan ceiling on federally insured student Loans to $50,000 while at the same time maintaining the simple interest rate of 7 percent per annum with interest to accrue nine full months after the student has completed his or her education.

It is erroneous to believe that students must bear up to the financial conditions of their times in order to fund their education. When one reviews the history of legislation on education in this country, two pieces of legislation which stand out as landmarks for their wisdom and impact are the Morrill Act of 1862, establishing land grant colleges, and the Serviceman's Readjustment Act of 1944, establishing the GI bill. Both of these pieces of legislation enabled many individuals, who otherwise would have faced financial barriers, to obtain a higher education and thus become more productive members of society.

Instead of HEAL, legislation is needed which adopts the same spirit as the Morrill Act and the Serviceman's Readjustment Act. To continue with HEAL would be a major mistake — and it is worthwhile to note that a major mistake will have major consequences. ☐

Michael Chisick, Harvard '79, is president of the American Student Dental Association.

Saunders testimony

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student who is qualified and admitted to these health professional schools should have an opportunity to attend, regardless of the student's finances? The interest rates and terms of the present guaranteed student loan program seem to reflect this more desirable attitude. What lender who also lends for the GSLP will want to continue with that program when it can have the financial advantages of HEAL instead? An increase in the loan ceiling of the GSLP from $15,000 to $40,000-50,000 is an attractive alternative to the HEAL program. Under HEAL's Subpart B Sec. 126.5 Par. (g), those students who have less than the amount of a year's educational cost remaining in their GSLP limit will be unable merely to supplement the last of their GSL with a HEAL loan. Instead they will have to pay all of the year's cost with the high interest HEAL. This makes absolutely no sense, especially if HEAL is to be viewed as a "last resort" type of loan. Also, why is it that only 50 percent of the classes in medicine, osteopathic medicine, and dentistry are permitted to use HEAL? What are the remainder of those in need of aid supposed to do once their GSL's are exhausted? Additionally, with this incredible financial burden, those students who wish to continue their education, be it in specialty programs or general dentistry residency programs where the student pays tuition or gets a meagre stipend, will not be able to afford it and will choose not to attend. Thus, those students who feel they need to be more proficient in general dentistry skills before they feel comfortable beginning practice will be forced to practice before they are ready. This can only result in decreased quality of care to the patient.

It is only logical to assume that the extremely low default rate that dentists have on their educational loans will increase drastically.

The average income of a dentist during the first 10 to 15 years out of school, during the repayment period of the loan, is much less than currently assumed. Given that many of these young professionals will have loans to repay from college as well as dental school, that they will have an additional average expense of $60,000 to set up practice, that they will have young children to support, and that their total monthly loan repayments will be extremely close to their monthly salaries, it is only logical to assume that the extremely low default rate that dentists have on their educational loans will increase drastically. More importantly, any dentist who does not wish to default can only avoid it by passing on the cost of HEAL's exorbitant interest terms to those who cannot afford it either — the consumers of dental care — this, in the wake of dentistry's excellent record of holding the cost of dental care down to the Consumer Price Index. How can anyone honestly say that this program is in the public interest? ☐

Michele Saunders is a student at the University of Pennsylvania School of Dental Medicine. She is vice president of the Student Council and president of the third-year class.

Van Brocklin testimony

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rower to postpone payment of interest before the beginning of the repayment period or during periods of forbearance or deferment may refrain from semiannual compounding of interest and add accrued interest to principal only at the time repayment of principal begins or resumes. A lender may do so only if this does not result in interest being compounded more frequently than semiannually."

126.13(c) *Payment.* "Interest begins to accrue when a loan is disbursed and is payable in periodic installments over the life of the loan."

- The clauses dealing with interest and repayment will have major impact upon health professional students. If the lender does not permit the borrower to postpone payment of the accrued interest while in school, the student who takes out $10,000 per year for each of his/her four years in school would have available from the principal of the loan a significantly decreasing amount for educational expenses with each succeeding year. This is because the money which must go toward interest payment increases each year.

During the first year, $1,200 (.12 × $10,000) must go to pay interest, leaving a net of $8,800 to pay educational expenses. The second year there are $2,400 in interest charges, leaving $7,600 for expenses. Similarly, the third- and fourth-year interest charges are $3,600 and $4,800, respectively, leaving a net of $6,400 the third year and $5,200 the fourth year for educational (or noninterest) uses. This leaves only $28,000 out of the $40,000 principal available for noninterest uses and would not be sufficient to meet most health professional students' expenses. If, on the other hand, the student gets a deferment of payment, he/she will end up paying a substantially larger amount of money in the long run, as I will detail shortly.

If the HEAL program is needed in conjunction with the loan sources presently available to us (Health Professions Student Loan, National Direct Student Loan, and Federally Insured Student Loans), it will create a number of problems for health professional students by virtue of its high interest rates and lack of federal interest subsidy benefits. It creates problems both while they're in school and once they're out in practice, and it will have a negative effect on those who need our health care.

The scope and depth of these problems could be greatly magnified should the Health Professions Student Loan (7 percent simple interest with federal interest subsidy) and the National Direct Student Loan (3 percent simple interest with federal interest subsidy) be phased out. And we have reason to fear that precisely this potential exists. The total allocations for the National Direct Student Loan Program have decreased each of the last three years, after reaching a peak during the fiscal 1975-76 year of $319,414,092. At the same time, the cost of living and the cost of schooling have increased substantially.

Similarly, the allotment of new monies for the Health Professions Loan Program, at least at the University of Pennsylvania, has decreased. If you couple this decrease with a move which has become a yearly precedent, you will understand why students are so concerned with this program. The precedent I refer to started in the Nixon era and continues into Mr. Carter's presidency. This precedent, as reported in the February 28, 1977, issue of *The Chronicle of Higher Education*, entails a presidential request that the National Direct Student Loan monies not be phased out of the budget, but be *cut entirely*. The only reason Congress has not acceded to this request is that they realize that, without an additional loan source, the health professions would begin to lose students due to insufficient funds.

The impetus not to abandon this program will now, I fear, be lost, and should the National Direct and Health Profession Student Loans be dropped or phased out, a student with a financial need in excess of the $5,000 Federally Insured Student Loan maximum would be forced to borrow exclusively from the HEAL program, with its exorbitant interest rates. The government is creating a dichotomy where the student who can least afford to attend a professional school is the person who ends up having to pay the most for it. Why should the student from a poor or disadvantaged family be penalized for it?

At the University of Pennsylvania School of Dental Medicine, 293 of the 640 students would be required to utilize the HEAL funding. The loss of other loan sources, coupled with the unavailability of Federally Insured Student Loan monies, could be devastating to 121 of these students. They require in excess of the $10,000 maximum available each year through HEAL. Further, a larger percentage of students will fall outside this maximum each year as inflation drives prices up and tuition escalates. If the interest charges referred to earlier must be paid as one goes through school, it is obvious that financial obligations will not be met, and consequently some students will be forced to drop out.

The most unfortunate aspect of these high interest loans could be that they could result in the reestablishment of an earlier tradition — a tradition which I believe was not particularly healthy for the populace and one which a more socially responsive government tried to change. I refer to the state of the professions prior to the 1960s, when loans for schooling in the health professions were not readily available, when, in order to attend a professional school, one either had to have personal wealth or had to have connections to the professional community, and when, consequently, medicine and dentistry were in essence closed professions.

The advent of the Federally Insured Student Loan Program in 1965 and the Health Professions Educational Assistance Act of 1963, and other similar low-interest or interest-subsidized loan programs, made it possible and continues to make it possible for students whose parents are unable to provide any (or substantial) financial assistance to attend health professional schools. Their merits cannot be replaced by the HEAL program.

The student who can least afford to attend a professional school is the person who ends up paying the most for it. Why should the student from a poor or disadvantaged family be penalized for it?

The implications inherent in borrowing the sums of money referred to earlier are enormous. They are enormous with respect to the financial burden they impose upon the student borrower. They are highly significant in determining the future course of education of the student (that is, in determining whether the student will further his/her education), and they have their most devastating impact by directing the student away from the areas that need professional care in the worst possible way. These areas, it will come as no surprise, are the sparsely populated rural and poverty stricken inner city communities.

I will digress at this point to tell a little about my background, my aspirations in practicing my profession, and how fulfillment of these aspirations will be affected by the loans I am taking to support myself through dental school.

I have lived most of my life on a small farm near Salinas CA. Although my parents are not farmers, but teachers by profession, I have acquired a rather intimate understanding of the problems facing rural agricultural populations as far as health care delivery and availability are concerned.

Salinas is a good-sized city and has no major health care problems. But, as one proceeds down the valley, the population becomes sparse by comparison and the average income falls precipitously. These two factors have resulted in a problem that is mirrored in almost every rural area across this nation: inadequate availability of health services. The people in these areas, due to the long distances they must travel for health care, neglect their oral health needs. By the time they seek out dentists, their problems are usually major. If a dentist were more readily available, these people would be able to receive the type of preventive care they need.

My major reason for applying to and consequently entering the dental profession was to enable me to go back to this region and to provide these people with the care they sorely need. My financial situation, however, does not enhance my ability to do so, as I will illustrate.

I am one of the students mentioned earlier who is on full aid. My debt accrual last academic year was $9,100, with the balance of educational and personal expenditure (approximately $4,200) made up by partial scholarship plus savings as an undergraduate. My total loan allocation this year is $11,050, and the remainder of my expenditures will hopefully be covered by part-time work as a security guard. Similarly, I expect to borrow comparable sums during my junior and senior years.

Assuming that I am able to continue earning the difference between my loan allocations (approximately $11,000) and my budgetary need (approximately $15,000), my indebtedness will be on the order of $45,000 by the time I graduate. Assuming I were to pay off my loan sources (7 percent simple interest loans with federal interest subsidy benefits in 120 equal payments), my total payments would be $62,699.40. This amounts to $6,270 per year for loan repayment.

Considering that the costs of establishing a dental practice are $45,000 to $60,000, and realizing that the average income of a rural dentist is only around $20,000 per year, it rapidly becomes apparent that there will be serious difficulties in my ever practicing rurally. At the very least, I will have to put off my involvement in the Salinas area and work for another practitioner for five or more years so that I might make enough money to pay off much of my loan debt and save some money to get my practice started. Even assuming that I went through my dental education strictly on the 7 percent simple interest loans, my financial stability would be so tenuous that I probably would not be able to serve the people who need my care so badly.

Considering how uncertain it is as to whether I will be able to practice rurally due to repayment of the type of loans I am now receiving, it should be blatantly obvious what loans would do at 12 percent compound interest with no federal interest subsidy.

These are the major provisions of the HEAL program — provisions that would definitely force me to abandon my quest to help the people I grew up around, the people whose needs I can perceive so clearly. There is no way that I could meet the HEAL payment, raise a family and finance a practice on the income I could generate rurally. The HEAL payments would be $9,413 per year if I had paid the interest as I went through school, borrowed the maximum of $40,000 and paid off the principal in 120 equal monthly payments.

There is no way that I could meet the HEAL payment, raise a family and finance a practice on the income I could generate rurally.

The unfortunate aspect of governmental legislation of this nature is that its results are directly contrary to the goals the government readily espouses: the provision of sufficient health services to meet the needs of *all* the nation's people. By charging students exorbitant interest rates and by removing the federal interest benefits available to them, the government practically ensures a continuance, if not an exacerbation of the disparity of health care availability in this nation.

Similar to the effect that debts incurred under this program could exert upon rural health care are the effects such debts could have upon the delivery of health care in the inner city areas. The effects of the high interest loans there would likely be two-fold. We would likely see a redirection of those who would ordinarily have gone into these areas toward a more lucrative area where they would be more likely to be able to pay back their debts. And, it would likely discourage many students from poor families and minority students from applying for admission. Exogenous funds would not be available and these students would have a difficult time meeting the interest payments off the principal of their loans, and the entirety of their educational expenses off the principal of the loans. The representation of minorities in the dental profession is an already appallingly low four percent, due in part to their inability to finance the high expense of a professional education. In addition, the government gives extensive lip service to minority admissions, using as its main argument for increased minority enrollment the postulate that minority professionals would be more likely to take care of the patients in inner city areas. Knowing all of this, I fail to understand how the government can rationalize this HEAL program. The program will not be in the best interest of the people the government claims it wants to help.

Further, there are potential effects upon the public which, while not quite as obvious as a reduction in the number of health care deliverers, could produce much the same effect: decreased quality of health care. I am alluding to the possibility that these high interest loans will discourage individuals from going on and furthering their education and will discourage people from going into research.

Whether the public is aware of it, the fact remains that the inroads into the disease processes and the alleviation of dental and medical problems all come through extensive research. Because dental researchers in general earn less than practitioners, and because they would have a difficult time paying back their loans, many students will abandon their research ambitions if faced with the HEAL funding.

We, the health professions, recognize that we have an obligation to the people of this nation. We recognize that some sort of national health program is forthcoming, and many of us even endorse certain aspects of it. However, the government is, by making health professional students pay for the abuse of its loan programs (abuses mainly due to nonprofessional students), alienating the very people it should be trying to educate to accept its proposals.

The HEAL bill is poor for the public, bad for the students who would have to borrow under it, and bad for the government's hopes of easily instituting a national health program. HEAL should be abandoned. ☐

Ralph Van Brocklin, University of Pennsylvania '81, is chairman of the ASDA Ad Hoc Committee on the HEAL Program. He is also a member of the U of Penn student council and chairman of its legislative committee.

Freshman dental students beware

15 unnatural laws

Submitted by Brian S. Dolberg
UCSF '82

1. **Murphy's law:** If anything can go wrong, it will.
2. **O'Toole's Commentary on Murphy's Law:** Murphy was an optimist.
3. **The Unspeakable Law:** As soon as you mention something, if it's good, it goes away; if it's bad, it happens.
4. **Nonreciprocal Laws of Expectations:** Negative expectations yield negative results; positive expectations yield negative results.
5. **Howe's Law:** Every man has a scheme that will not work.
6. **Zymurgy's First Law of Evolving Systems Dynamics:** Once you open a can of worms, the only way to recan them is to use a larger can.
7. **Etorre's Observation:** The other line moves faster.
8. **Skinner's Constant:** That quantity which, when multiplied by, divided by, added to or subtracted from the answer you get, gives you the answer you should've gotten.
9. **Law of Selective Gravity:** An object will fall so as to do the most damage.
10. **Gordon's First Law:** If a research project is not worth doing, it's not worth doing well.
11. **Maier's Law:** If the facts do not conform to theory, they must be disposed of.
12. **Boren's First Law:** When in doubt, mumble.
13. **The Golden Rule of Arts and Sciences:** Whoever has the gold makes the rules.
14. **Segal's Law:** A man with one watch knows what time it is. A man with two watches is never sure.
15. **The Ninety-Ninety Rule of Project Schedules:** The first 90% of the project takes 90% of the time, and the last 10% takes the other 90%.

AMERICAN STUDENT DENTAL ASSOCIATION
211 EAST CHICAGO AVENUE, CHICAGO 60611
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Committee Chairman's Report
ASDA Ad Hoc Committee on the HEAL Program
January 19, 1979

This program, the Health Education Assistance Loan Program (HEAL), could have profound deleterious effects upon those it is ostensibly meant to benefit—students of dentistry, medicine, osteopathic medicine, veterinary medicine, podiatry, and pharmacy.

The fiscal implications of this program are tremendous—The American Student Dental Association (ASDA) fears that the substantially higher total indebtedness resulting from the utilization of this source of funds will limit the career choices of many dental students, affect their ability to establish a practice individually, and place an extreme handicap upon those students who have a family to support during the period of their education or those who wish to start a family during the loan repayment period. A resolution was therefore introduced at the 1978 ASDA Annual Session which decried the following provisions:

126.5(g) In order to receive a HEAL loan, a student must "not have received a loan under the guaranteed student loan program for any part of the same academic year for which the HEAL loan is sought."

126.11(d) Minimum Annual Repayment
"During each year of repayment, a borrower's payments to all holders of his or her HEAL loans must total at least $600 or a sum equal to the interest that accrues during the year on all of the loans, whichever is greater."

126.13(a)(1) Rate
"Interest that is calculated on a fixed rate basis may not exceed 12 % per year on the unpaid principal balance of the loan."

126.13(b) Compounding of Interest
"As a general rule, unpaid interest must be compounded semi-annually and added to principal. However, a lender that permits a borrower to postpone payment of interest before the beginning of the repayment period or during periods of forebearance or deferment may refrain from semiannual compounding of interest and add accrued interest to principal only at the time repayment of principal begins or resumes. A lender may do so only if this does not result in interest being compounded more frequently than semiannually."

126.13(c) Payment

"Interest begins to accrue when a loan is disbursed and is payable in periodic installments over the life of the loan."

The clauses dealing with interest and repayment will have major impact upon health professional students. For instance, examine the case where the HEAL lender does not permit the borrower to postpone payment of the interest while in school. With each succeeding year, the student borrower would have available from the principal of the loan a significantly decreasing amount for educational expenses. This is because the money which must go towards interest payments increases each year.

Take, for example, a student who borrows $10,000 per year and elects to pay the interest while in school. In the first year, $1,200 must go to pay interest, leaving a net of $8,800 to pay educational expenses. The second year there are $2,400 in interest charges, leaving a net of $7,600 for expenses. Similarly, the interest charges are $3,600 and $4,800 respectively, leaving a net of $6,400 the third year and $5,200 the fourth year for educational (or non-interest) uses. This leaves only $28,000 out of the $40,000 principal available for non-interest uses, and would not be sufficient to meet many health professional students expenses.

On the other hand, if the student borrower elects to defer interest payment on a HEAL loan while in school, he/she will end up paying a substantially larger amount of money in the long run. On a $40,000 principal paid in equal installments over a 10 year period, the total payments under HEAL would be $94,132.19. Furthermore, a student who borrowed $8,000/year as an undergraduate ($32,000 total) and then went on to a three speciality program with one year additional residency, could expect to pay a total, over 15 years, of $148,709!

By contrast, if a student were able to borrow $40,000 under the provisions of the Federally Insured Student Loan program (7% simple interest with accrual to begin 9 months after graduation), total payments would be $54,000 if paid in equal installments over a ten year period.

ASDA recognizes the need for additional loan monies to help supplement the educational expenses of aspiring dentists. The HEAL program, with its exorbitant interest rates and lack of Federal interest subsidy is deemed by the American Student Dental Association as unacceptable even as a supplemental source of funding. If it is used to supplant our presently available subsidized loan sources (the Federally Insured Student Loan at 7% simple interest and the National Direct Student Loan at 3% simple interest and the Health Professions Student Loan at 7% simple interest), a move we fear distinctly possible, the implications upon the health professional student and upon the nation's health consumers will be profound. This kind of move by the government would hold negative connotations, not just with respect to the total indebtedness of the student upon graduation, but would likely also prove highly significant in determining the future course of education of the student (that is, whether the student feels he/she can afford to specialize or accept a general practice residency) and in determining how the student applies his/her DMD or DDS. We anticipate that those students interested in establishing rural or inner-city practices, and those primarily interested in teaching and research careers, will be directed away from those endeavors, through fiscal necessity, toward income maximization. ASDA feels that this could have devastating impact upon many of the nation's people, upon the quality of dental education, upon practical advances in our understanding of oral problems, and directly upon the profession itself by creating a marked overpopulation of professionals in the most lucrative areas.

My Turn

Dick Martz

R_x for Lower Doctors' Bills

Our doctors are overcharging us. Over the next fifteen years, we can expect to pay $8.8 billion in unnecessary doctors' bills. It won't buy us better medical care; it won't even make the doctors richer. That money will go straight to the banks, as interest on the loans needed for medical education. The good news is that we don't have to pay it. For a good deal less than $8.8 billion, we can put all the doctors we need through medical school.

At first gulp, the idea sounds absurd: in the new age of austerity, I am proposing to spend more tax dollars to subsidize those entering one of the highest-paid professions. But on purely pragmatic grounds, nobody can afford to dismiss it.

A major cause of inflation is surely our national penchant for buying now and paying later. If medical students can't pay their own way—and they can't—the money is going to come out of our pockets one way or the other. We can pay now, in the form of an educational subsidy, or we can pay a whole lot more later in doctors' fees.

A decade ago, med students didn't need massive public support. Private medical-school tuitions averaged less than $2,500 in 1970, and most students had to borrow little to supplement family help, scholarships and summer earnings. Then medical-school costs rose sharply. But in the early '70s, Congress was providing support for doctors' education: research grants to medical schools, a low-interest student loan program and, in response to the national shortage of doctors, "capitation" grants—direct subsidies to the medical schools based on the number of students enrolled.

THE BUDGET SQUEEZE

But recently, the mood has changed: the doctor shortage has been declared over. Research grants, now more than a third of the typical medical school's annual budget, are being squeezed down. The Administration has proposed that capitation be cut in half in fiscal 1979 and phased out altogether the following year.

The decrease in Federal support means higher tuition fees and more student borrowing. To raise these funds, Congress has established a new program with the cheery acronym of HEAL, for Health Education Assistance Loans. The theory is that the student who benefits from medical training ought to pay for it from his future earnings. But in practice, HEAL means he has to take commercial loans at the going interest rate, which is 12 per cent or more for a fifteen-year loan.

That will put a heavy burden on young doctors. Already, with many tuitions at more than $6,000 (and some as high as $12,500), 56 per cent of all students have to borrow. The average loan, conservatively estimated, comes to $4,780 a year. Under HEAL, the annual payments for this loan would exceed $4,000—for fifteen years.

If we assume that a young, ambitious doctor works ten hours a day, six days a week, 52 weeks a year, and gives each patient fifteen minutes, he will have to add 32 cents to each bill just for those HEAL payments. If he works a more realistic 40-hour week, takes a two-week vacation and gives each patient a half hour, the extra charge will be $1. Either way, it adds up to $60 million a year.

And if you think our young doctor is going to absorb the charge, think again. After twelve long and impecunious years of college, medical school and a residency, it's unrealistic to expect him to volunteer $4,000 a year to help fight inflation.

COVERING COSTS

The doctor's loan payments are a legitimate cost of doing business, and you and I will pay them in fees, hospital bills, health-insurance premiums and taxes to cover medicare bills.

The students who entered medical school last year will borrow a total of $200 million by graduation. Under HEAL they (and therefore we) must repay a staggering $700 million. It would cost far less just to give the money away. If we provide tax dollars to replace the loans, the current year would cost $160 million; assuming a 7 per cent inflation rate, the next fifteen years would cost $5.1 billion. But under HEAL, the cost over fifteen years would be $13.9 billion. Plainly, the subsidy would save $8.8 billion—and it would cost only about 80 cents a year for each American.

I suggest that we should do even more. With a total of $200 million a year, we could cover not only medical-school costs but also outstanding undergraduate loans for medical students, ensuring that all our new doctors are free of educational debts. The investment would be more than repaid in lower fees, since the interest wouldn't have to be paid.

Would the doctors actually set their fees to reflect lower costs? Yes. For one thing, the fees allowed under medicare, Blue Shield and other insurance programs take costs into account. Perhaps more important, we are entering a period of growing competition among doctors: with the end of the shortage, market pressures will play an increasing role in reducing fees.

THE FREEDOM TO CHOOSE

But there would be other benefits for the nation, too: more family doctors, distributed more evenly around the country. Under HEAL, a young doctor faces monthly payments as high as 25 per cent of his income; he can't afford to buy or start a practice, and he can't afford to be a family doctor in a small town. He is forced to enter a higher-paying specialty and work in a large, well-established hospital. Given more freedom of choice, young doctors could follow their idealistic impulses to small towns and rural areas where they are desperately needed.

There could be a significant saving in bureaucratic costs: one check to each of 125 medical schools would replace the current structure of 33,000 individual loans each year. Loan defaults, bankruptcies and collection problems would vanish. And perhaps most important, a medical education would be available to the best-qualified applicants regardless of their parents' wealth—perhaps the most affirmative action possible toward equal opportunity.

It might be argued that capitation has been tried, and hasn't produced these results. But previous levels of support have always left the average graduate with significant debts. We've never created a situation in which doctors are allowed to choose their specialties or locations—or even set their fees—without the pressure of educational debts.

We can solve the whole problem for $200 million a year, about a dollar from each of us. If we really want to slow inflation, encourage more family medicine and improve the distribution of physicians, this may be the cheapest health insurance we can buy.

Martz is manager of computer services at the Dartmouth Medical School.

AMERICAN STUDENT DENTAL ASSOCIATION
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March 23, 1979

Letters Editor
Newsweek
444 Madison Avenue
New York, NY 10022

Dear Sir:

There were several conspicuous shortcomings in Dick Martz's perspective on the Health Education Assistance Loan (HEAL) program (My Turn, March 19, 1979). For one, Martz failed to point out that the ramifications of HEAL pertain not only to medical students, but to students of osteopathic medicine, veterinary medicine, podiatry, pharmacy, and dentistry as well. To ignore these health professionals, when assessing the impact of HEAL on the future of health care economics, is to ignore the total health needs of the nation's people.

While his description of the long-term effects of the HEAL program was excellent, Martz failed to adequately address the immediate consequences of HEAL. That is, HEAL is intensifying an already critical situation of financing health professional education. Today, escalating tuitions at the nation's health professional schools are driving many students and their families into burdensome debt, limiting the best in education to the affluent, and denying access to well-qualified applicants of limited financial means.

At first glance, the $50,000 loan ceiling on the HEAL program may appear to be a way for many students to surmount these financial barriers. However, under the conditions of the loan, borrowers may be charged up to 12% interest per annum, with interest accruing from the inception of the loan and being compounded semiannually. In addition, $10,00 of the $50,000 ceiling can only be borrowed during residency training. These loan conditins mean tha , in effect, the student can only maximally borrow $28,000 during his/her four years of professional school because $12,000 of the $40,000 principal must be used to make interest payments during that period. This, unfortunately, would not be sufficient to meet the total expenses of many health professional students, especially at private institutions.

Finally, Martz failed to realize that the need for income maximization to pay back HEAL loans would not only adversely affect the number of students entering general family practice, but would also adversely affect the number of students entering traditionally low-paying specialities, such as international public health, biomedical research, or academics.

The ramifications of HEAL are far more reaching than Martz envisioned.

Sincerely,

Michael C. Chisick

Michael C. Chisick, President and Chairman
ASDA Board of Directors

AMERICAN STUDENT DENTAL ASSOCIATION
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ASDA CENTRAL OFFICE 211 E. CHICAGO AVENUE, CHICAGO, IL 60611 312/440-2795

April 1, 1979

Memorandum

TO: Members of the Subcommittee on Health
United States Congress

FROM: Ralph J. Van Brocklin, Chairman
ASDA Ad Hoc Committee on the HEAL Program

In view of the potential adverse effects of the Health Education Assistance Loan Program (HEAL), the American Student Dental Association recommends that the following provisions be changed as noted:

126.5 (g) Mutual Exclusivity of HEAL and GSLP

We recommend that this clause be deleted. This will allow students to be eligible for the Guaranteed Student Loan Program and the Health Education Assistance Loan Program in the same academic year.

126.7 (b) 50% Availability Restriction

We recommend that this clause be revised by deleting the phrase:

> "Schools of medicine, osteopathic medicine, and dentistry are responsible for making sure that no more than 50% of their students in each class are authorized to receive new HEAL loans each 12-month academic year."

The 50% restriction in availability is unfair to the many students who need loan monies to pursue their education.

126.11 (e) Repayment Schedule

We recommend that this section be revised to guarantee a graduated repayment schedule if the borrower so requests and that all repayments be deferred until at least 9 months after graduation.

126.13 Interest Provisions

We recommend that this entire section be revised in such a manner that interest provisions are more in line with existing federal student aid programs--loan programs which provide federal interest subsidy on the principal while the borrower is in school and which carry a 7% simple interest rate.

HEAL and Potential Repayment Through the National Health Service Corps

Sections 126.1 (g) and (h) of the HEAL Program read:

> (g) The Commissioner of Education may enter into a special contract with a borrower who has obtained a degree from a HEAL school. Under the contract, the borrower agrees to serve for at least 3 years in a health manpower shortage area as a member of the National Health Service Corps or as a private practitioner. In return, the Commissioner agrees to pay an amount, not to exceed $10,000 per year, to the holder of the borrower's HEAL loan to be applied toward interest and principal.
>
> (h) The determination of health manpower shortage areas will be made by the Secretary. The availability of any contracts for any year is not assured and is limited by the size of the nation's health manpower shortages in the various health disciplines, and the appropriation of funds for this purpose. An individual may receive a contract only at the Commissioner's discretion. In addition, and except in cases of impossibility or extreme hardship, severe penalties are provided in the law for any borrower who does not comply with the terms of the contract.

There are two serious shortcomings to these payback provisions. First, the selection of the individuals who are to receive the contracts is entirely at the discretion of the Commissioner, so students do not have any real way of assessing their potential of receiving such a contract. And, secondly, no promises are made as to the availability of the contracts. The government is, through HEAL, causing health professional students to amass tremendous debts in order to "entice" them into the National Health Service Corps (NHSC.) Sorrowfully, the government seems to have lost sight of the fact that it cannot possibly accommodate the huge number of students it is forcing to borrow under HEAL. The alienation felt by those who are, in essence, forced to apply for the NHSC contracts and consequently receive them will be minor compared to that felt by students who find that they are "unneeded byproducts" of the program. Faced with economic ruin, it is possible that they will not be as concerned with providing quality health care as they are with maximizing their income, they will be forced to seek out and settle in the most lucrative areas (hence ignoring rural and inner-city areas), and they will be forced to dispense of any notions of pursuing the less lucrative areas of education and research. And, all of this for what???

HEAL & NHSC

The government should recognize that such coersion is entirely unnecessary. There are an extremely large number of dental students who, due to the rising costs of tuition and living, desire to enter the NHSC. It makes no sense to use HEAL to increase the desirability of the NHSC when there are insufficient funds available to accommodate all those who presently want to join the service, and when, additionally, there are already sufficient numbers of qualified applicants to fill all the designated health manpower shortage areas in the country. Instead of trying to force students into the NHSC, the government should be trying to expand the presently available scholarship program and , through positive inducements (monetary, etc.), make the program more attractive. ASDA maintains that the people in the health manpower shortage areas will receive a better quality of health care from dentists who voluntarily accept their NHSC service then those practitioners who are forced into a committment by their indebtedness resulting from HEAL. This latter groups hostility towards the government will, unfortunately, likely spill over onto the the people they have reluctantly come to serve.

That there are an insufficient number of scholarships and insufficient monies available for all those who may someday wish to utilize the NHSC to repay their HEAL indebtedness, is quite apparent if one considers the available government data on the Public Health Service Scholarship Program (the NHSC's predecessor) and makes some extrapolations from it:

For the 5 years of the PHS Scholarship Program, ('73-'74 to '77-'78) a total of only 198 dental students were afforded scholarships. This amounts to only about 12% of the total of 1565 dental applicants (all of whom applied the last three years of the program), and only about 0.8% of the potential applicants from dentistry over that time span. This last figure is particularily important, for if HEAL becomes the predominate source of funding, far more students will indeed begin to apply for the National Health Service Corps. Obviously the question becomes one of whether we can expect to see a sufficient amount of monies made available to accommodate those who need it to avoid the excessive debt load of HEAL.... It would appear that we cannot. In fiscal 1978, a total of $60 million was allocated for all phases of the NHSC operation. Of the $60 million, $14,871,671, or roughly 25% was used for payment of student's tuitions and fees under the PHS Scholarship Program. And of the $14,871,671, only $435,179, or roughly 2.2% was available to dental students. While amendments to the Health Education Assistance Act of 1976 have provided that dentistry must receive no less than 10% of future monies earmarked for tuition and fees, there still exists a terrible inequity in the availability of NHSC scholarships to students of dentistry. This 4X increase still would make contracts or scholarships available to no more than 3% of the nation's dental students, all potential borrowers from HEAL. What are those in the remaining 97%, many on the brink of economic disaster resulting from borrowing from HEAL, supposed to do???

[illegible] of 1978 [illegible]

The government will undoubtedly make the point that each year they increase the amount of money to the NHSC. This is true.... But, at the $10 million per year increase in allocation to the Corps, dental scholarship monies (or contract monies) for tuition and fees would only accommodate 3% more of the country's students every 6 years. And, this is assuming that tuitions remain at the same levels as for 1977-78.... We already are acutely aware that this has not happened. In actuality, tuition increases will probably roughly balance out the yearly increases in NHSC tuition allotment.

Summarizing this, what we should stress to the government is:

1) There are a large quantity of dental students who would go into the NHSC if the monies and facilities were available (and hence HEAL is not necessary.)

2) If students perceive that they are being forced into the NHSC, they will likely feel hostile towards the government and this could spill over onto their patients.

3) By causing dental students to amass such tremendous debts and then not having the capability of accommodating all of them in the program HEAL is meant to establish, the government will drive up the cost of dental services, exacerbate the clinician distribution problem which it's ostensibly trying to remedy, and possibly even decrease the quality of dental care.

Note: for the academic year 1978-79, roughly 400 NHSC scholarships (12% of the total scholarships available) were awarded to dental students.

Mr. FORD. Thank you very much.

Millard Ruud, executive director of the Association of American Law Schools.

STATEMENT OF MILLARD H. RUUD, EXECUTIVE DIRECTOR, ASSOCIATION OF AMERICAN LAW SCHOOLS, WASHINGTON, D.C., ACCOMPANIED BY JOHN R. KRAMER, PROFESSOR AND ASSISTANT DEAN OF AMERICAN LAW SCHOOLS AND THE LAW SCHOOL ADMISSION COUNCIL

Mr. RUUD. Thank you, Mr. Chairman and members of the committee.

I am Millard Ruud, executive director of the Association of American Law Schools and for 30 years a member of the law faculty of the University of Texas.

Appearing with me today is John R. Kramer, a member of the law faculty of Georgetown University and the person who chairs our Committee on Government Relations.

I will summarize, Mr. Chairman, the statement that you have, the full statement before you. In making this presentation today I represent both the Association of American Law Schools and the Law School Admission Council.

The association is literally an association of schools, 136 schools in the country. The Law School Admissions Council represents those the 136-plus additional 31. It is concerned with assisting member schools with respect to admissions and financial aid and was a founding member of the Council of Graduate and Professional School Financial Aid Service.

The policy positions that we express today have been developed through consultation with the GAPSFAS Council members, who represent the graduate schools of business administration, arts and sciences, dentistry, public health, allied medical professions and theology.

General support for the positions we will advocate has been expressed by these groups. We will state the positions of the Association of American Law Schools and the Law School Admission Council in terms of law students, potential, present and past. The concerns we voice, however, are as applicable to the students in the other graduate and professional postbaccalaureate schools other than those of medicine, which have special financial aid programs of their own.

Our concern is, individualy and collectively, for the 122,000 law students in the Nation's accredited law schools and for the 1 million other graduate and professional school students. We are concerned, too, for the nearly 35,000 law graduates, some of whom each year may be forced by the need to repay their student loans to choose higher paying positions for lower paying ones that would help serve the underserved needs for legal services.

The problems as we see them in student aid can be seen in terms of certain dilemmas. How can a student who emerges from college with an educational debt in the range of $7,500 realistically consider continuing a legal education that may cost from $3,500 to $10,000 a year in tuition, fees, books, and living expenses? For this coming year the standard budget for a single student at Harvard is listed as $9,288. The cost may distort choices and affect who becomes a law student.

We are concerned about reducing, perhaps hopefully eliminating that economic obstacle to the choice of whether to go to law school or not.

Second, how can a student once admitted to law school, facing these needs, afford to devote full time to studies and not take some time, perhaps too much time, away from studies in work that will depreciate what the student will get out of the law school studies?

Third, how can a graduating professional student, a law student, faced with a substantial burden of repaying the educational debts, exercise freely a job choice? Certainly there will be an immense pressure to choose the position offering the most return.

To what resources may students turn in addition to their own savings and support from family? If we were dealing with undergraduates, grants would of course be an obvious place to begin. But BEOGs are not available for graduate students. The grant aid for law and other professional and graduate schools is sparse. For law schools, in a survey of 141 schools, we found that the amount of grants represented 11 percent of total tuition and fees.

About half of that came in the form of tuition scholarships which, as you understand fully, is a transfer and in substance a cost from the more well-to-do classmates to the lower income students. About 24 percent of grants came from endowments, 19 percent from private gifts, 9 percent from other sources, primarily State grant sources.

The Federal grant contribution for law schools is small. There is one though small for the Council on Legal Education Opportunities of great importance to the law schools. While it is about $500,000 in grant amounts to less than two-tenths of 1 percent of law school tuition and fee income, it is of greater importance to the legal education, the justice system and the public.

The recently established graduate and professional opportunities program, GPOP, is one for which law students are eligible and which promises to be a source of grants, a significant source of grants in dollars although, of course, not yet in percent. Loans, therefore, constitute the main source to law students and in fact to professional and graduate students for financing their education.

Loan dollars constituted about $150 million, that is about nearly one-half of the total tuition and fees received by law schools. The importance of the loans and the importance of the Federal loans to law students can be easily appreciated.

There are, however, problems and it is those to which we wish to address ourselves today. In February we did submit in response to your invitation, a statement in connection with the reauthorization legislation.

The problem may be summarized in these terms:

1. The borrowing limitations which are now $2,500 a year for undergraduates and $5,000 for graduate students up to a lifetime maximum of $15,000;

2. The repayment period, which is the first 10 years after graduation, after a brief 9-month hiatus;

3. The repayment schedule, which is a flat 10 percent of principal plus interest annually;

4. The complex overlay of loan programs and terms, which involves seven programs with varying features, although NDSL and GSL are the most relied upon; and

5. The inflexibility of the obligation regardless of the position desired upon graduation.

Let me address each of those problem areas separately. First, with respect to the borrowing limits, we feel that those should be lifted from any individual year of law and professional and graduate study. The rising costs of attendance have rendered the existing annual limits obsolete.

Each student should have the flexibility to allocate his or her cumulative borrowing limits in any manner he or she deems wisest in light of shifting individual circumstances, including varying living expenses and changes in other available income from family, earnings, or grants.

Since the cost of graduate and professional training ranges from $3,500 to almost $10,000, the range would restrict meaningful debt financing of this education. While this is outside our responsibility, you may wish to take the same approach with respect to undergraduates, except freshmen, as well. If so, the freshman limit could be retained in a consumer price index annually updated form, using $1,500 as the base to take care of the higher dropout rate.

The cumulative totals should be raised to $10,000 for the undergraduate years and $20,000 additional for graduate education, again with no annual limit, with the proviso that, to the extent that the undergraduate limit went unused, it would remain available in the graduate years.

The $10,000 to $20,000 figures would be indexed annually in accordance with the overall Consumer Price Index to avoid the necessity of frequent amendment of the Authorization Act to keep up with inflation. Two educational associations, NASFAA and COFHE, have asked you to increase the cumulative limits to $25,000, and one of those, NASFAA, has not only sought an annual ceiling of $7,500, but has also requested that the Commissioner be authorized in his discretion to increase these limits further upon appropriate findings.

Second, the repayment period should be lengthened to avoid placing the entire burden of repayment during the first 10 years after graduation. Those are the very years when income is likely to be at its lowest and the pressure of repayment severest, when a married women with this debt who seeks to leave the labor force temporarily to have a child would be particularly disadvantaged, and when default or delinquency as a consequence is most likely to occur.

We advocate stretching repayment out to 20 years if the individual's overall educational debt exceeds $15,000 for 15 years, if the debt is more than $5,000 but less than $15,000. COFHE has supported a 20-year payout, NASFAA, 15. The Carnegie report envisions an average earner repaying his loan in about 20 years. We recommend that the period be tailored to the size of the debt.

Third, the repayment schedule should be reordered to allow each student, within 9 months of graduation, to select the preferred profile of amortization designed to reflect what he or she anticipates his or her income is likely to be over the course of the ensuing 20 years.

In February we recommended that the Commissioner devise different systems of repayment schedules to reflect data on the income profiles of various professions and occupations. We now recognize that such a mechanism would be too complex to administer and would confront lending institutions with too much uncertainty with respect to repayment. We now abandon that suggestion.

We are also dubious about any repayment plan that is income contingent, such as the Carnegie report's 1 percent of income each year for each $1,000 borrowed or Senator Bellmon's 1 percent of adjusted gross income per year as the maximum or Senator Kennedy's as yet undrafted but promised proposal some form of income contingency.

Lending institutions need to have some firm sense of projected revenues from loans; this most income contingency plans cannot offer. The Maguire bill, however income contingent, does clear that obstacle.

We think that the best mechanism to satisfy both borrower and lender is a mandatory graduated repayment option under which the borrower would pick one of seven graduated slopes of repayment with payment increasing from an actuarially determined initial level by 3, 4, 5, 6, 7, 8, or 9 percent annually in such a way that the entire debt would be repaid over 20 or 15 years.

Those borrowers who wished to accept low-paying work, because of its social utility or challenge at the start of their careers might chose the 9 percent slope, secure in the knowledge that their debt burden would be quite minimal for the first several years of their working lives. Even the average lawyer would be able to defer the highest repayments to the highest earning years, when default would simply be out of the question.

Debt, however substantial, would be universally manageable and default-free because the schedules would increase over time in synchronization with earnings. This seems the only way to assure that the fraction of an individual's income devoted to the retirement of accumulated educational debt is held to a reasonable, flexible amount.

Meanwhile, the lending institutions would know from the very day the debtor chose one of the graduated slopes precisely what dollar levels of repayment they could expect year in and year out over 15 or 20 years.

That such a scheme is attractive to banks as well as their customers is demonstrated by the fact that, after considerable lobbying, this type of loan—in which payments start out smaller than normal and then gradually grow over a specified period as the borrower's income grows—may, since January 1, be offered for home mortgages by federally chartered savings and loan associations, has just been approved for Virginia banks by the Virginia Legislature, is a part of legislation introduced for FHA mortgages by Senator Harrison Williams, who is chairman of the Subcommittee on Housing and Urban Affairs of the Senate Banking Committee, and Representatives Les AuCoin and John J. LaFalce as part of the Housing Opportunity Act of 1979 designed to permit persons with small incomes to afford homes, and appears to be an increasingly popular feature of long-term, high-level financing.

Fourth, the complexity of the available loans should be reduced by developing the appropriate technical scheme to permit any educational debtor to consolidate all of his or her outstanding educational debt that was federally insured or guaranteed, wherever obtained and at whatever stage of education accrued, into one loan instrument with one graduated repayment schedule and uniform set of terms. The Maguire bill looks in this direction, as do the suggestions of COFHE, NJ, and USSA.

Finally, we would like this subcommittee to consider a feature not suggested by any other group to date, but one that we think makes sense for loans to graduate and professional students, forgiveness of loans for certain service. The existing NDSL has loan forgiveness provisions for full-time teachers in low-income schools or for military service in a hostile area.

We would like to see a modification of these provisions applied to the revised GSL loans to furnish as much encouragement as possible to professional service in the public interest and to avoidance of income maximizing as the dominant motive in accepting employment. In various ways, the legislative recommendations of COFHE, PCSCS, and USSA also address this issue.

Under our proposal, outstanding educational loans would be forgiven on an increasing scale over 5 years, with 15 percent being forgiven during each of the first 2 years, 20 percent in the third and fourth years, and the last 30 percent in the fifth year in which certain conditions were met. The staged increases are designed to provide incentive to diminish rapid turnover in work of a public service nature and develop relatively experienced personnel in those fields.

To suggest an approach we have developed a proposal suited to young lawyers. The lawyer borrower would qualify only if: (1) At least 75 percent of his or her gross income was from wages paid by State or local governments or by private nonprofit institutions and, (2) if his or her annual income, including unearned income, was below a fixed ceiling set under the private market entry wage rate, which for young lawyers would be the entry level salary for a Federal attorney which is currently in the neighborhood of $18,000.

The result, we hope, would be increased interest in serving for a prolonged period of time, and not merely a brief 2-year apprenticeship, in such capacities as assistant State or district attorney, legal services lawyer and public defender, or in any of a myriad of roles to which lawyers are vitally necessary but hard to attract because of competing salary levels and the demands to repay educational debt.

Indeed, young lawyers might well find the forgiveness feature an inducement to forming or joining nonprofit clinics providing legal services to the hitherto underserved lower-middle and middle class. Similar benefits would flow to each of the occupations or professions to which other professional graduate school graduates move.

Thank you for this opportunity to express the views of the Association of American Law Schools and the Law School Admission Council on the critically important question of Federal loans to law students in particular and to graduate and professional students generally.

In preparing the reauthorization legislation for the Higher Education Act of 1965, you are undertaking as complex, difficult, and important a legislative task as faces Congress this session. As you proceed with your deliberations, we know that you will remember that the freedom of access to graduate and professional education in this country is largely dependent on a sound program of federally guaranteed loans that realistically addresses the interests of all concerned.

[The full statement of Millard Ruud follows:]

STATEMENT

on behalf of the

ASSOCIATION OF AMERICAN LAW SCHOOLS

and

LAW SCHOOL ADMISSION COUNCIL

by

MILLARD H. RUUD

before the

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

of the

COMMITTEE ON EDUCATION AND LABOR

of the

CONGRESS OF THE UNITED STATES

May 30, 1979

I am Millard H. Ruud, Executive Director of the Association of American Law Schools and for 30 years a member of the law faculty of the University of Texas. I appear today as a representative of both the Association of American Law Schools and the Law School Admission Council. Joining me in this presentation is Professor and Associate Dean John R. Kramer of the Georgetown University Law Center and Chairperson of our Association's Committee on Government Relations.

The Association of American Law Schools was founded in 1900 and is composed of 136 member schools, all of which are approved by the American Bar Association. The Association is recognized as a national accrediting body by the Council on Postsecondary Accreditation, a non-profit, non-governmental association. As stated in its bylaws, the purpose of the Association is the "improvement of the legal profession through legal education."

Professor L. Orin Slagle of Ohio State University and President of the Law School Admission Council has asked me to present this statement on behalf of the Council as well. The Law School Admission Council was established in 1948 and is composed of 167 members, including the 136 schools that are members of our Association. The Council is responsible for the Law School Admission Test program and is a founding member of the council of the Graduate and Professional School Financial Aid Service (GAPSFAS). It is, in short, concerned with assisting member schools with respect to admissions and financial aid.

The policy positions that we express were developed through consultation with the GAPSFAS Council members, who represent the graduate schools of business administration, arts and sciences, dentistry, public health, allied medical professions and theology. General support for the positions we will advocate has been expressed by these groups. We will state the positions of the Association of American Law Schools and the Law School Admission Council in terms of law students -- potential, present and past. The concerns we voice, however, are as applicable to the students in the other graduate and professional postbaccalaureate schools other than those of medicine, which have special financial aid programs of their own.

Our concern is, individually and collectively, for the 122,000 law students in the nation's accredited law schools and for the one million other graduate and professional school students. We are concerned, too, for the nearly 35,000 law graduates, some of whom each year may be forced by the need to repay their student loans to choose higher paying positions over lower paying ones that would help serve the underserved needs for legal services. We are also concerned for a sometimes overlooked group -- those who consider a legal career and then conclude that they must abandon that dream because financing the preparation for it is for them economically unrealistic.

We seek your help in finding answers to the some of most pressing questions that confront graduate and professional students - the questions of economic access, of unhindered concentration upon the learning process, and ultimately of freedom in choosing a career. We hope that the results of your deliberations will provide satisfactory resolutions of the following dilemmas:

> How can a student who emerges from college with $7,500 in educational debt under current program constraints realistically consider continuing with a graduate education that may cost from $3,500 to $10,000 a year in tuition, fees, books, and living expenses, exclusive of foregone earning opportunities? Harvard Law School's standard budget for single students, for example, will be $9,280 this fall, and Cambridge is not the most expensive community in the nation. Some graduate schools may be less expensive, some more. None are cheap. Women and minorities bear the heaviest burden of discouragement at this stage. Diversity in the professions inevitably suffers.
>
> How can a student admitted to law school afford not to desert her studies to work for pay for as many hours as possible to meet the bills? Law schools vigorously seek to enforce our 15-hour a week maximum work rule, but we are playing Canute with the tide when law firms offer $8 to $10 an hour to our students. No teacher, however dynamic, can compete with that. No course, however stimulating can hold a hungry student away from his or her bread and butter. The irony is that because it costs so much to come, they come and then cannot devote full attention to their studies. Their education is the loser.
>
> How can a graduting professional student, confronting the looming burden of repaying substantial educational debts for his or her most expensive lifetime purchase other than a home, exercise freely the job choice? His or her only option is to sell his or professional skills to the highest bidder, if the debt is to be repaid on time in equal installments every month for 10 years. The median urban starting salary for a 1979 law school graduate was recently reported by The Wall Street Journal to be $22,000. A legal services lawyer receives about $13,000. The public's work will not all get done if only the richest can afford to perform it.

These dilemmas impact severely upon the quality and future of law schools and other graduate and professional schools of the United States. The present financial aid programs are as much a part of the problem as they are the solution. Like undergraduate students, graduate students can always turn to their own summer and year-round earnings to finance their continued schooling, but summer savings tend to be insufficient and extensive school-year work is counter to sound educational policy. Parents lose the will to sacrifice, if not wherewithal, by the time graduate education commences, they have already sacrificed their own wants for four years and are understandably less eager to do so thereafter. And often there is another child whose college education must be paid for.

To what other resources can these students turn? If they were undergraduates, grants would be an obvious place to begin. But BEOGS are for undergraduates, not for law students. Grant aid for law and other professional and graduate schools is sparse and getting sparser. Grants equalled only 11% of total tuition and fees in 141 law schools from which we were able to gather data; these were distributed to one-fourth of the students. Nearly 50% of that sum came in the form of tuition scholarships, which are largely transfers from more well-to-do classmates to the lower income students. This, of course, merely operates to boost the already high price of education to the former. 24% was derived from endowment and 19% from private gifts. Less than 9% was attributable to other sources, primarily state. The Federal grant contribution to law schools was very small. There is one federal law school program, however, that should not be overlooked -- that supporting the Council on Legal Education Opportunity (CLEO). While its $500,000 in grants amounts to less than 2/10% of law school tuition and fee income, it is of great importance to legal education, the justice system and the public. If Graduate and Professional Opportunities Program (GPOP) contained in sections 922-25 of the 1965 Act receives its requested $15 million, we may acquire a more reasonable portion.

Grants, as they are currently on the books, offer not much help. Indeed, the only Federal grant program for graduate and professional students -- GPOP -- amounts to 1/163rd of the sum available for undergraduates, although graduate students fill over 1/10th of the seats in our colleges and universities. The nearly 3,500 students a fully-funded GPOP would support are a drop in the graduate school bucket, albeit an important one because of the minority populations being served.

Loans, therefore, constitute the main vehicle for financing professional and graduate education. That is clearly the case for the nation's law schools. Loan dollars of approximately $150 million equalled 49% of all tuition and fees in the law schools survey -- 71% of these loans were under the Guaranteed Student Loan (GSL) label, while 20% flowed from the National Direct Student Loan (NDSL) Program. Surprisingly, just as Federally-subsidized loans represent the major source of loans for law students, so are law students disproportionate recipients of such loans, perhaps indicating the relative favortism shown by banks to prospective lawyers as borrowers. In academic year 1978-79, the law school world accounts for approximately $110 million or 5.5% of all of the commited guaranteed student loans, even though law students comprise less than 1.4% of all loan-eligible enrolled students. Stephen P. Dresch, the eonomist who has done the most intensive research on the student loan programs, has noted that the graduate-professional share of the directly Federally-guaranteed loan volume hit 17% in 1977. And that is not the end of the trend, since the percentage was only 9 in 1971. As Dresch states, because "the costs of graduate and professional education are markedly higher than the costs generally associated with earlier educational stages and apart from funds available within the family, recourse to the capital market represents virtually the only mechanism by which these costs can be financed."

If loans in ever-increasing volume are the primary means to the end of making graduate education affordable, they are also, unfortunately, a significant barrier. They are, at once, the hope for the future -- as the recent Carnegie Council recommendations on student financial aid in the 1980's puts it, the "indispensable source of support for graduate and professional students" -- and its nightmare. Professional and graduate school students have difficulty securing loans everywhere in this tight money market, even with a non-competitive special allowance subsidy, and in some states and regions at all times.

We will not address in detail the issues of access, but we understand that you will be reviewing proposals that would increase the willingness of private lenders to make loans available, whether they take the form of structural changes in the lending system or reinforcement of the state agencies or new on-campus loan distribution mechanisms or extra financial incentives to banks. We endorse this effort. Even if it were determined by you to be necessary, as some have suggested, to allow the 7% interest ceiling to rise or even be removed to find its market level, we would not object so long as the other reforms we propose were adopted, because then law students could afford to repay their loans without being strapped and without restricting their career choices even if the interest cost were greater.

Our major focus is not on access, but on affordability and loan terms. It is the specter of crushing debt burden that deters too many students from applying to law and other professional and graduate schools, that forces them to work excessively instead of studying, and that compels them to take jobs largely for the financial reward. That burden, given the nature of the GSL program and the cost of "highest" education, can all too easily become intolerable. At Georgetown University Law Center and Yale Law School, where studies have been recently undertaken, it was discovered last fall that, the median education debt burden for students graduating this spring would be in the $10,000 to $12,000 range, a figure that was likely to increase by at least $2,000 in 1979-80 because of the recent increase in borrowing ceilings to $15,000. 32 Yale graduates (out of 170) and 86 Georgetown graduates (out of 500) had debt over $12,000. GAPSFAS data for 1977-78 reflect (with 20,638 law students reporting) that 60% had educational debt, the mean was close to $4,300. By the third or fourth year in law school, the level of indebtedness in the 90th percentile grew to over $11,500.

Under the existing GSL program, a $12,000 debt would require initial annual repayment burdens of approximately $1,700, which mandates that the graduate either seek only the highest paying form of legal employment or place his or her family budget under unbearable strain or, as is all too often the case, default. If, as the study by Dwight Horch on "Estimating Manageable Loan Limits For Graduate and Professional Students" (Educational Testing Service, 1978) assumes, a manageable annual educational debt repayment level is between 5 and 8% of an individual's after-tax income, then a first-year lawyer who is single would have to obtain a job paying close to $30,000 to afford to pay off the $12,000 loan. The young lawyer could, of course, buy fewer clothes or smaller meals or lesser housing or default.

A similar July, 1978 study by Richard Kraus, Associate Dean of the Graduate School of Arts and Sciences at Harvard University, ascertained that a couple with a child would need a starting salary of $24,500 to service the $15,000 legal maximum for GSL debt. He concluded that "the federal policy that graduate and professional students can and should finance themselves with loans . . . is headed for disaster generally because there is almost no profession that can afford to repay debts of the type now encouraged and this approach serves increasingly to exclude the less well-to-do either from the education or the profession."

The evidence is clear and convincing. The disadvantages of the current GSL loan practices are so substantial that they operate to deter too many students from rather than attract them to graduate or professional studies. The critical factors that make the loans unattractive to obtain and difficult to repay are:

1) The borrowing limitations, which are $2,500 a year for undergraduates and $5,000 for graduate students up to a lifetime maximum of $15,000;

2) The repayment period, which is the first ten years after graduation (after a brief nine-month hiatus);

3) The repayment schedule, which is a flat 10% of principal plus interest annually;

4) The complex overlay of loan programs and terms, which involves seven programs with varying features, although NDLS and GSL are the most relied upon; and

5) The inflexibility of the obligation regardless of the position desired upon graduation.

In our recommendations to this Subcommittee in February, we addressed each of these issues with a legislative proposal. Some reflection has prompted us to modify slightly the details of those proposals, but not their thrust. We do not maintain that our proposals are the only ones that will cure the ills we have described. There are other ways to enable persons to go to law school even when their family is not wealthy, to stay in law school and devote time to education rather than work, or to accept low-paying jobs on graduation that are more professionally satisfying to them. For example, we believe that H.R. 3769 by Congressman Andrew Maguire, the Fair Access to Higher Education Act, would meet all of our objectives. The Maguire bill would enable graduate students, both prospective and actual, to attend school by borrowing in the confidence both that they could afford to repay their loans over an open-ended period based upon their earnings from any employment they chose and that they would be free from the mental and fiscal constraints of a flat-rate 10-year repayment schedule.

Nonetheless, we would urge you to address the five problem areas we have highlighted in a fashion similar to the specific amendments we have proposed. Other groups have already appeared before you in support of similar individual features and other recommendations in your Committee print point in the same direction, so we are by no means novel or alone.

Let me now address each of these problem areas separately. first, the borrowing limits should be lifted from any individual year of professional and graduate study. Rising costs of attendance have rendered the existing annual limits obsolete. Each student should have the flexibility to allocate his or her cumulative borrowing limits in any manner he or she deems wisest in light of shifting individual circumstances, including varying living expenses and changes in other available income from family, earnings or grants. Since the cost of graduate and professional training ranges from $3,500 to almost $10,000, and borrowing limits falling significantly short of the outer edge of the range would restrict meaningful debt financing of this education. While this is outside our responsibility, you may wish to take the same approach with respect to undergraduates, except freshman, as well. If so the freshman limit could be retained in a Consumer Price Index annually updated form, using $1,500 as the base to take care of the higher dropout rate.

The cumulative totals should be raised to $10,000 for the undergraduate years and $20,000 additional for graduate education (again with no annual limit) with the proviso that, to the extent that the undergraduate limit went unused, it would remain available in the graduate years. The $10,000/$20,000 figures would be indexed annually in accordance with the overall Consumer Price Index to avoid the necessity of frequent amendment of the authorization act to keep up with inflation. Two educational associations (NASFAA and COFHE) have asked you to increase the cumulative limits to $25,000, and one of those (NASFAA) has not only sought an annual ceiling of $7,500, but has also requested that the Commissioner be authorized in his discretion to increase these limits further upon appropriate findings.

Second, the repayment period should be lengthened to avoid placing the entire burden of repayment during the first ten years after graduation. Those are the very years when income is likely to be at its lowest and the pressure of repayment severest, when a married woman with this debt who seeks to leave the labor force temporarily to have a child would be particularly disadvantaged, and when default or delinquency as a consequence is most likely to occur. We advocate stretching repayment out to 20 years if the individual's overall educational debt exceeds $15,000 or to 15 years, if the debt is more than $5,000 but less than $15,000. COFHE has supported a 20-year payout, NASFAA, 15. The Carnegie Report envisions an average earner repaying his loan in about 20 years. We recommend that the period be tailored to the size of the debt.

Third, the repayment schedule should be reordered to allow each student, within nine months of graduation, to select the preferred profile of amortization designed to reflect what he or she anticipates his or her income is likely to be over the course of the ensuing 20 years. In February we recommended that the Commissioner devise different sets of repayment schedules to reflect data on the income profiles of various professions and occupations. We now recognize that such a mechanism would be too complex to administer and would confront lending institutions with too much uncertainty with respect to repayment. We now abandon that suggestion. We are also dubious about any repayment plan that is income contingent, such as the Carnegie Report's (1 percent of income each year for each $1,000 borrowed) or Senator Bellmon's (1 percent of adjusted gross income per year as the maximum) or Senator Kennedy's as yet undrafted, but promised proposal (some form of income contingency). Lending institutions need to have some firm sense of projected revenues from loans; this most income contingency plans cannot offer. The Maguire bill, however income contingent, does clear that obstacle.

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Meanwhile, the lending institutions would know from the very day the debtor chose one of the graduated slopes precisely what dollar levels of repayment they could expect year in and year out over 15 or 20 years. That such a scheme is attractive to banks (as well as their customers) is demonstrated by the fact that, after considerable lobbying, this type of loan, in which payments start out smaller than normal and then gradually grow over a specified period as the borrower's income grows, may, since January 1, be offered for home mortages by Federally chartered savings and loan associations; has just been approved for Virginia banks by the Virginia legislature; is a part of legislation introduced for FHA mortgages by Senator Harrison Williams, who is Chairman of the Subcommittee on Housing and Urban Affairs of the Senate Banking Committee and Representatives Les AuCoin and John J. LaFalce as part of the Housing Opportunity Act of 1979 designed to permit persons with small incomes to afford homes; and appears to be an increasingly popular feature of long-term, high-level financing.

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To suggest an approach we have developed a proposal suited to young lawyers.

The lawyer borrower would qualify only if (1) at least 75% of his or her gross income was from wages paid by state or local governments or by private non-profit institutions and, (2) if his or her annual income (including unearned income) was below a fixed ceiling set under the private market entry wage rate, which for young lawyers would be the entry level salary for a Federal attorney which is currently in the neighborhood of $18,000. The result, we hope, would be increased interest in serving for a prolonged period of time, and not merely a brief two-year apprenticeship, in such capacities as assistant state or district attorney, legal services lawyer and public defender or in any of a myriad of roles to which lawyers are vitally necessary, but hard to attract because of competing salary levels and the demands to repay educational debt. Indeed, young lawyers might well find the forgiveness feature an inducement to forming or joining non-profit clinics providing legal services to the hitherto underserved lower-middle and middle class. Similar benefits would flow to each of the occupations or professions to which other professional graduate school graduates move.

Thank you for this opportunity to express the views of the Association of American Law Schools and the Law School Admission Council on the critically important question of federal loans to law students in particular and to graduate and professional students generally. In preparing the reauthorization legislation for the Higher Education Act of 1965, you are undertaking as complex, difficult and important legislative task as faces Congress this session. As you proceed with your deliberations, we know that you will remember that the freedom of access to graduate and professional education in this country is largely dependent on a sound program of federally guaranteed loans that realistically addresses the interests of all concerned.

Mr. **Ford**. Thank you very much.

Let's start first with Mr. Ruud.

I have discussed the recommendations from your association in some detail with people even in my own law school who came down to make sure that the recommendations had reached me.

I raised some questions with him. But looking at page 5 of your statement, you are citing your recommendations and you quote from a study made by Richard Krause, associate dean of the Graduate School of Arts and Sciences at Harvard. I quote:

> The Federal policy that graduate and professional students can and should finance themselves with loans * * * is headed for disaster generally because there is almost no profession that can afford to repay debts of the type now encouraged and this approach serves increasingly to exclude the less well-to-do either from the education or the profession.

In that statement you are echoing the concerns stated by all three of your fellow panel members, but then you ended the statement by recommending an increase in the amount of borrowing and therefore the amount of indebtedness that could be incurred by professional students such as law students. Those seem to be, if not contradictory, contrary positions. How do we resolve that dilemma?

Mr. **Ruud**. Mr. Chairman, let me try then, if I may, to ask Professor Kramer to add. We have offered two recommendations: One is an increase in the loan payments. That addresses the need for additional funds on the part of law students to finance their education and to offer them an opportunity to reduce the pressure for excessive outside work while in law school.

Second, we recommend a graduated repayment scale that, if I understand how it will work, will make the increased loan manageable in the initial years.

Mr. **Ford**. That is the second paradox in your position you have a flat statement here somewhere that you don't believe that loans should be put on an income contingent repayment basis and then you endorse the Maguire bill which has as its essence an income contingent repayment system.

Mr. **Kramer**. If I might address those two questions, as I understand Mr. Krause, he is totally opposed to any loan program and in favor of grants. I think the law school associations realize that a massive grant program for up to 1 million professional students is probably fiscally out of the question in any kind of reauthorization of the Higher Education Act. Clearly, however expensive loans are, and Mr. Fitt spoke to that this morning, loans are less expensive than grants.

So the answer to Krause that we give is that the loan can be made in such a fashion that they are repayable and manageable. I think our other suggested provisions go to that.

The graduated repayment option is income contingent only in a group sense. In other words, there are seven groupings of people picking anywhere from a 3- to 9-percent slope what they believe their income profile will look like over 20 years. They will know for example, in year 1 that they have to pay $180 a month on year 15. That is not the same as total income contingency.

The borrower knows what his obligations are likely to be and can calculate them. The Maguire bill provides a middle funding mechanism so that every bank knows what it is going to get even though the borrower doesn't know what he or she will pay. We are in favor of having every borrower know where he or she stands as well as the banks.

Mr. FORD. Thank you very much.

I would, once again, like to compliment the representative of the student groups here for not only the very thorough statements but the refreshing approach that we are becoming accustomed to. We expect the spokesmen for the student groups to cut through the excessive hyperbole that we find in some statements and say it like it is.

We fully appreciate the fact that you spoke with a great deal more freedom about the positions representing the students than do other associations and groups which apparently are not able to get 60 people together on short notice and come to tentative conclusions with respect to that which they like and don't like. Other members of the committee were observing to me during the testimony that we seem to have come almost full circle when we have the principal student associations literally pleading for status quo.

I don't know whether that is good or bad. But the suggestions that are made here are, as we have come to expect, very constructive in their nature and clearly in the motivations with the viewpoint of the students involved.

It is very clear from the contradictions that arise out of the question of how much money should be borrowed against how difficult it should be to be paid back, when measured in terms of what real need is with the pressures of increased student costs, appears to be a problem of literally putting people into a position where they are not able, in the early years when they could have been of greatest value with their idealism and convictions to the American society, to participate in any kind of public service.

All of you seem to be in agreement that we have to stay short of that. The real difficulty in dealing with student loans comes down to the basic question of what it is you are trying to do with student loans.

Most educators have given me the impression that they feel that borrowing money should be the last way in which you get the money needed to go to school because it has continuing implications that are very difficult to deal with and may in fact change someone's entire career notwithstanding his success in school, because there are rigid requirements on a student, particularly a person with a high commitment to repaying their debts promptly. That stands in the way of any real freedom of choice.

I am interested in the American Student Dental Association, quoting Joe Califano, because I didn't think there was anybody left in the health professions that still liked Joe. Some magazine quoted him as saying we had too many doctors. A young friend of mine attending medical school in Krakow, Poland, because they said he was too old to go to medical school in this country saw that and wrote to me that the 42 students going to school in Krakow, Poland, will not be voting for Secretary Califano's party in the next election.

While you pointed out that generally the cost of education for students rose 77 percent in the last decade for dental students it rose 145 percent in the past 6 years. Recognizing that there are clearly differences in all graduate level education in cost, what is the explanation for this sudden explosion in the past 6 years that has caused dental education, as a cost to the student and that is the way you put it, not as a cost of education, to expand this way?

Is it because legislators and boards, as you seem to suggest, assume that dentists are going to be successful quickly later and therefore believe that they can pass more of the costs of their education off to them?

What is the factor that has the schools holding down the cost of education to students really below the increase in the cost of living across the board? We found that it doesn't matter whether it is the low cost public institution or the very high cost private institution, the percentage increase in each of the last 10 years has been well below the percentage increase in the cost of living and the increase in wages.

Why has it jumped in the past 6 years so dramatically with dental schools?

Mr. CHISICK. I wish I could give you a concrete answer, however I can only speculate. It is my belief that the extraordinary tuition increases at health professional schools have been propelled, in large part, by economic forces that are not relevant to other institutions of higher learning. I am referring specifically to the Federal capitation grant program, increasing enrollment at the Nation's health professional schools. Capitation led to the expansion of existing and the creation of new health professional schools.

For a dental school, sizable increases in enrollment would require costly expansion of basic science and clinical facilities, plus a tremendous expenditure to equip these facilities. Too, there would be other indirect expenses, such as maintenance costs, hiring of additional faculty, and so forth.

I would speculate that many school administrators did not complete a thorough cost/benefit analysis before they decide to expand their enrollments in order to qualify for Federal capitation moneys. On the other hand, perhaps some administrators, in their operating budgets, spread the costs of such expansion over several years with the assumption that the school would continue to receive capitation moneys for a prolonged period of time at a consistent level of funding. However, even the planning of these financially prudent administrators has gone awry due not only to diminished capitation funding levels but to a threatened abrupt end to all capitation support.

Faced with a loss of one source of operating revenue, many dental school administrators have apparently decided that the most readily accessible avenue for replacing this lost income would be to raise tuitions. Indeed, a good example of this is Northwestern University Dental School where tuition was hiked 50 percent last year. Students were informed that this increase was necessary in order to help defray the costs of construction of a new clinic and fully equipping that facility.

I might add that it is somewhat of a puzzle to me as to why medical school tuitions would escalate in a pattern similar to that of dental schools. Although increased medical student enrollments would require expanded basic science facilities, there would not be a concomitant expenditure on the part of the medical school to expand clinical facilities, including equipment, at the teaching hospitals affiliated with the medical center. On a per capita basis, predoctoral training costs for a dental student are certainly higher than those for a medical student.

Mr. **Ford**. The figures you gave us indicated that while the tuition increase was greater in private schools it is not all that much different. There is a very close parallel, 149 percent in private schools and it gets to 142 percent for all schools. Is it too cynical to assume that because there seems to be an inexhaustible supply of qualified students seeking entry to the dental and medical schools that it is easier for people making the decision, whether they are a board in the private school or a legislature in the public school, to keep increasing tuition because it doesn't impact on the supply of students willing to pay it?

Mr. **Chisick**. Actually, a friend of mine at school has that same cynical attitude. He suggests that instead of lobbying for increased moneys that we should be lobbying for an investigation of why these tuitions are skyrocketing. So that is a possibility.

Mr. **Ford**. It suggests to me that all of our concern about ways in which we can guarantee access to education and the continued diversity in the composition of the professions in this country are being wiped out by this sort of an escalation. Very clearly there are not going to be any lower income backgrounds reflected in the profession if we are going to go back to the pre-World War II tradition where you had to come from wealth to be a professional with the exception of our friends in the ministry.

Mr. **Chisick**. I am very much in accord with your comments, especially with regards to the Nation's private and private-State-related professional schools, and this brings up the interesting contrast between State-supported and private schools.

For instance, for the 1978-1979 academic year, tuition at the University of Texas Dental School at Austin was an amazing $300. This compares to the tuition at private schools which were as high as $8,000 to $9,000. From these figures it is immediately apparent that financial barriers to entry into the health professions would be minimal for a resident of Texas if he or she desired to attend a public dental school. However, not all Texas residents may wish to attend a public dental school. But, of far greater significance is the fact that many students in other parts of the country don't have this type of option available to them.

In New England—exclusive of Connecticut—for example, there are three dental colleges—all private and with total first year expenses ranging from a low of $12,500 at Harvard to a high of $19,900 at Tufts. Clearly, this type of situation is limiting access to the wealthy.

One final point I would like to make is that it is very difficult, almost impossible, to attend a State school as an out-of-State resident. Also, with an out-of-State status, one generally pays two to three times the tuition of an in-State student.

Thus, higher tuitions are limiting entry into health professional schools by students from certain parts of the country more than others. However, there is a definite limitation for students from all over the country who wish to attend a private or private-State-related school.

Mr. **Ford**. Thank you very much.

Mr. Buchanan?

Mr. **Buchanan**. Thank you very much, Mr. Chairman.

I do somehow feel the world is changing with you two defending the establishment and the establishment recommending revolutionary radical change.

I would like to kind of pin down what COPUS and USSA would prefer on the matter of variable repayment or graduated repayment. The witness representing the law students ended up with a preference for graduated, not variable.

Do you have a preference?

Mr. **Packer**. We don't have a very detailed, specific answer but let me give you a general preface. We think some students cannot meet the current fixed repayment schedule and need some relief. However, the easier you make it to pay back the loan, it is easier to give the loans. We try to meet the delicate balance between easing the burden but not making the loans painless and just give them to everybody for the hell of it.

We think students should have the option for some type of basically graduated repayment where payments could increase at a specified rate over time. I think the point made by the law schools is very important, that the borrower has to know as well as the lender exactly what those payments will be so that making it income contingent or some other sort of unspecified repayment would not be in the best interest because people would not be able to know exactly in advance how much per month and how much time it will take. In opposition to the first panelist from CBO, I think in addition to how much you pay per month it is equally important for the person to know how many months it will take to pay that back. Talking about 10 years versus 30 years in repaying a loan is a significant difference. So in general I think there needs to be some basically graduated, recognized as you say that for almost every one there is lower ability to pay in the early year as compared to the higher years but not in every case.

Also, as you progress along in your working career in addition to working and earning more money you generally also accumulate more responsibility, home mortgage, spouse, and other payments which might exceed your earnings so you might have lower ability to pay. Early on we might have lower income but very few other financial responsibilities. So we think it needs to be tailored on almost an individual basis perhaps.

We think again that the option could be through encouragement to State agencies to provide this sort of refinancing, so to speak, of student loans.

Mr. **Buchanan**. Do you have further comment?

Mr. **Kocian**. I agree.

Mr. **Ford**. Well, we would invite all you students and your associations to make some specific recommendations now with respect to how we go about coming to some resolution of the dilemma of how you determine acceptable levels of indebtedness and how you determine equitable ways of dealing with higher levels.

There seems to be a lot of agreement that the present methodology is not equitable and doesn't work well, and that we could profit by change. But I take it from the two groups that testified first that the administration's proposals, at least as they are known, are not meeting with a great deal of enthusiasm at the student level.

Mr. PACKER. We recommend certain changes in terms of the basic structure of the program, that they be left as they are more or less but that there be as we recommended certain modifications to ensure increased capital availability and flexibility on repayments and efforts to reduce defaults and some loan forgiveness perhaps and simply getting better information about the whole thing.

So we are not saying leave things as they are because there are a lot of problems in these programs. We are saying let's not take everything we have and throw it out in the street and build up a new structure which will take us 15 more years to reach the current state.

Mr. FORD. Mr. Ruud's suggestion has been used in the past for loan forgiveness for specific kinds of equipment. I think he specified service in legal services for public defender programs. We went into loan forgiveness originally for the purpose of inducing people into education at a time when we didn't have enough young people committing themselves to that career.

Apparently we kept that faucet turned on a little too long and developed a surplus in the professions. We have a proposal before us from the chairman of the Interstate and Foreign Commerce Committee for forgiveness on student loans for health professions if people will commit themselves to a period of service in public health assignments to areas of the country where the health profession personnel are in very short supply or nonexistent.

What about that approach of trying to pick and choose types of activities for forgiveness in light of the experience that we have had in the past?

Mr. KOCIAN. It seems like an apple pie issue, that is all fine and dandy and we like it. But I principally worry that we are dealing with something like manpower development, something that is not really a part of our educational endeavor. That kind of corrupts the program. I would rather see that sort of forgiveness and I can't propose how to do this but somehow administered externally from the loan program.

Mr. FORD. In the Middle Income Student Assistance Act, Mr. Quie had an amendment that stretched out the payment program for people who went into vocational rehabilitation. That was a humanitarian approach based upon an assumption that that person really shouldn't be expected to start paying back when they were in fact still trying to get themselves into a position of being able to work gainfully.

But from your perspective stimulating more people to go into one profession or another, would we be able to take the present program and consider some period of service in a variety of categories?

I think the law schools suggested that where the employer was a public employer that would create a presumption that they were unable to repay at the same rate as other people and that there should be some consideration for that. There are two ways to do it, either forgiving part of the loan or delaying the repayment schedule while someone is in that kind of limbo.

If we delay medical students now during residency, recognizing that they are barely making subsistence wages, but that has little or no effect on bringing people into the profession. It doesn't seem to have any effect on making it possible for low-income people to become physicians and surgeons.

Would it be a useful exercise to try to examine the possibility of ballooning the payments by stretching out the starting time for repayment based on some consideration of a useful public need being performed by someone?

Mr. RUUD. Mr. Chairman, may I make one comment about ours? Absent is the feature in the forgiveness for teaching service in that this is from people who have chosen and taken an education, a legal education. We are not certain exactly how this will all work in other graduate and professional work. So it may not have any impact on the choice to go to a law school. It is designed to have an impact on what one does with that legal education.

So the forgiveness program we suggest tries to avoid the experience we did have with an earlier program. We certainly are willing to concede that there are problems with its administration. If it worked only a deferral of the responsibility to repay, it certainly would, of course, permit the person to go with legal services or public defender or with a nonprofit institution. But the person would still have that debt and would have the need to pay off the debt.

Mr. PACKER. If I can add a little bit, our proposal that we recommended was geared not so much to get people into specified jobs but into the broad category of community service work. We looked at it from a couple of different perspectives, one that people who have high loan burdens are prevented. Certain career options are closed off. They cannot go into working in certain community-service-type jobs because they won't be earning enough to pay off their loan.

Second, we are looking at the fact that there is a great need out there for more people to do community service work. There is a publication out, "Youth and Needs of the Nation," put out by the Committee for Study of the National Service which was co-chaired by the president of Hunter College.

At this time they are having a conference uptown about national service for youth. We were looking at it from their perspective that there is a lot of work out there, day care, health care that needs to be done and we should think of ways to encourage young people to get into those areas. So perhaps someone for a few years could go into that and after that move on to a more lucrative position.

So that is why we recommend just partial forgiveness, a maximum of 50 percent, a certain percentage each year over a 3- or 4-year period. My understanding is that the administration is seriously, somewhat seriously looking at these kinds of proposals and that they have some interest in it.

Mr. KOCIAN. Joel put it in the terms of national service. I would say that certainly would be preferable to some of the bills currently before you proposing coerced national service. I also think that you should structure in the idea of a deferral rather than forgiveness. That seems more appealing and that is a gut reaction.

I would like to add that personally I find it quite appealing. I think the service occupations would have to be pretty broadly defined. I would recommend that they include service to national student organizations.

Mr. **Packer**. Which are definitely low paying jobs.

Mr. **Chisick**. I would favor loan forgiveness over loan deferral for those professionals who seek a public service career. Otherwise, one runs the risk of creating a temporary, as opposed to a permanent, solution to professional personnel needs in some public service settings. One must not fail to realize that the total lifetime income of professionals in public service careers will be much lower than those who seek a more lucrative practice setting. Furthermore, without some type of compensation, such as loan forgiveness, one could reasonably expect that some idealistically motivated professionals would eventually seek higher paying jobs among wealthier clientele.

However, forgiveness provisions for public service in Federal loan programs are of little value unless the borrowers, themselves, are aware of them. Unfortunately, in many health professional schools, students are not congnizant that some of their loans can be forgiven in exchange for practice in federally designated health manpower shortage areas. Furthermore, if students know of these provisions, they know even less about the means of determinig where health manpower shortage areas are located and about the procedure for applying for loan forgiveness. In short, in addition to encouraging students to consider public service careers, one must provide them appropriate counseling on how to reach that goal.

In fact, inadequate guidance for recent graduates on selecting a practice location is probably one of the most serious shortcomings of the present dental education process. Typically, a student, who decides to open a practice immediately after graduating from dental school, will establish himself in the community in which he grew up or in the community in which he gained his education. As a result, one has a fairly skewed distribution of dentists in this country with most dentists located in communities close to where the Nation's dental colleges are located.

Such a skewed distribution pattern is evident in Massachusetts and has not been without serious consequences. In fact, in recent years there have been a sizable number of new dentists who have gone bankrupt because they made poor decisions as to where to locate a practice in the Bay State.

Thus, inadequate counseling on selecting a practice location may partially explain the seemingly paradoxical coexistence of shortage and saturation health manpower areas.

Fortunately, steps are being taken to address the vital issue of health manpower allocation for recent dental graduates. Through a grant from the American Dental Association Health Foundation and the W. K. Kellogg Foundation, the National Health Professions Placement Network was recently created. Essentially, the purpose of the network is to act as an information clearinghouse, matching up the needs of a community with the desires of an individual practitioner. Users of the network will be provided information on health manpower shortage areas that exist in their areas of expressed interest.

The national network is based on a system that has operated successfully in the State of Minnesota for 6 years. Particularly worth noting is that before the program became operational, Minnesota had seven designated health manpower shortage areas; now it has only one. Clearly, the Minnesota experience suggests that a successful matching system could lead to permanent rather than temporary solutions to the problems of health manpower distribution.

Mr. FORD. Thank you very much, gentlemen. We will look forward to receiving the specific legislative language from you that will solve the problem.

Arthur Fritz, director of financial aid, Syracuse University, representing the National Association of Student Financial Aid Administrators, and Matthew R. Paratore, executive secretary, International Liaison, Inc., U.S. Catholic Coordinating Center for Lay Volunteer Ministries, Washington, D.C.

Welcome, gentlemen.

STATEMENTS OF ARTHUR FRITZ, DIRECTOR OF FINANCIAL AID, SYRACUSE UNIVERSITY, REPRESENTING THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, AND MATTHEW R. PARATORE, EXECUTIVE SECRETARY, INTERNATIONAL LIAISON, INC., U.S. CATHOLIC COORDINATING CENTER FOR LAY VOLUNTEER MINISTRIES, WASHINGTON, D.C., ACCOMPANIED BY STEPHEN KURZMAN, COUNSEL, NIXON, HARGRAVE, DEVANS & DOYLE, AND FATHER DAVID J. HINCHEN, DIRECTOR, JESUIT VOLUNTEER CORPS EAST

STATEMENT OF ARTHUR FRITZ, DIRECTOR OF FINANCIAL AID, SYRACUSE UNIVERSITY, REPRESENTING THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. FRITZ. Thank you, Mr. Chairman.

Mr. FORD. Without objection, the statements presented by the panel will be presented in full. You may proceed to comment on them.

Mr. FRITZ. Thank you, Mr. Chairman, I am Arthur Fritz, director of financial aid resources at Syracuse University, and current director of NASFAA's Commission on Governmental Affairs. Joining me shortly will be Dr. Dallas Martin, executive director of the association.

Today we would like to discuss briefly some of the specific recommendations which we previously presented to you concerning the national direct student loan program—NDSL—and the guaranteed student loan program—GSL—and to address several other issues which currently impact these programs.

NASFAA has reviewed carefully the existing legislation governing the NDSL and GSL programs, and we have compared this language with the actual administrative and operational experiences that our institutional members have had with these programs since their inception.

In addition, NASFAA, in cooperation with the American Council on Education, held an invitational symposium on the student loan programs on April 10 and 11, 1978, in an effort to systematically review student loan alternatives in preparation for this reauthorization of the title IV legislation. The papers presented at the symposium are contained in the publication "Student Loans: Alternatives for Reauthorization," which has been given to each member of the subcommittee.

We also have reviewed carefully the criticisms directed to these programs from numerous parties in the past 24 months, and have studied the numerous proposals that have been advanced to change the Federal loan programs.

Having completed this review, we are of the opinion that most people simply do not understand the various features contained in the existing legislation and that most of the well-intentioned alternatives to improve the current loan programs fail to reveal the true costs and administrative problems that would be involved if the options were adopted.

For these reasons, the changes which NASFAA has proposed are primarily technical in nature and strongly support the continuation of the two programs in their existing basic structure. To better understand why we have taken this approach, let us examine the most common complaints about the existing programs.

May I at this time review some of the key recommendations. We propose increases in annual maximum amounts the students may borrow. At the same time, with the increases, the repayment period should be stretched out. The current period is all the way up to 20 years. Also, we have called for guarantee State agencies and lenders to receive from the commissioner, the authorization in the legislation to receive information from any available source, including IRS, about the borrowers. In the NDSL program we also propose that the same skip-tracing information be given to the institutions.

Another change which we have recommended is that when NDSL notes are assigned to OE, any funds collected would be returned proportionately to the institution and to the succeeding year's Federal capital contribution allotment. Currently all funds revert to the Treasury, which has the effect of diluting the fund. This change will also enable some State institutions which are currently prohibited by State law from surrendering a State asset to the Federal Government, to assign their defaulted NDSL notes to the Office of Education for collection.

I would like to now provide a little extra perspective to criticisms directed toward NDSL and GSL programs.

One of the primary criticisms of the existing programs is that default rates are too high, particularly in the NDSL program. While it is true that default rates in student loans are higher than what we would desire, it is important to examine the factors causing this situation.

The NDSL program is now 21 years old, and yet the overall national default rate for this program is currently 17.37 percent. Unlike other lending arrangements which include credit checks, collateral, cosigners, et cetera, national direct student loans are awarded to students demonstrating financial need, enrolled at least half-time, and maintaining satisfactory academic progress. In fact, since its creation, the primary purpose of the NDSL program has been simply to assist needy students in completing their education. While it is generally understood that students will repay the funds after they leave the institution, the primary emphasis has seldom been upon collections. We fully realize that this lack of emphasis primarily rests with certain institutions which have not fulfilled their responsibilities. However, there is also complete historical documentation to show that the Office of Education seldom has penalized institutions with high delinquency and default rates. In fact, only in the past year has the Office of Education begun seriously to deal with the NDSL default problem. Congress, on the other hand, has addressed the problem on several occasions. For example, in 1972 Congress amended the statute enabling institutions to write off and assign their rights to the Office of Education for NDSL accounts which had been in default for at least 2 years despite due diligence on the part of the institution.

Unfortunately, the Office of Education did not establish procedures to allow such assignment until this past year. This is not particularly surprising since the regulations implementing the 1972 education amendments to the NDSL program were not actually finalized by OE until a month after the legislation had expired in 1976. The 1976 legislative changes were not promulgated into final regulations until August 24, 1978.

In spite of these and many other administrative deficiencies which have occurred during the 21-year history of the NDSL program, the fact remains that this program is still one of the most successful student aid programs initiated by the U.S. Congress.

Default rates in the guaranteed student loan program also have been criticized as being too high. However, again, the facts will show that the State agencies have maintained a default rate of less than half the Federal insured student loan rate.

While default rates are a factor that need to be addressed, we would oppose those alternatives which would assign student loan collection activity to the Internal Revenue Service. The reinstatement of IRS skip-tracing procedures, coupled with serious administrative attention by OE, State agencies and institutions, will resolve the current concerns about high student loan defaults.

Mr. FORD. There is a conference report being voted on. It would be hypocritical to miss the vote after all the discussion on health care this morning. It will just take a minute and I will be right back.

[Recess.]

Mr. FORD. Please go on, Mr. Fritz.

Mr. FRITZ. If I may continue to comment on criticisms leveled against GSL.

Another criticism of the existing programs is that needed capital is not available to all students. Again, one must examine the facts carefully. Statistics contained in a recent report released by United Student Aid Funds show that during the 11-year period prior to the educational amendments of 1976, State and private agencies guaranteed a total of $5.2 billion in student loans. In the 3 years since the 1976 amendments, the agencies have guaranteed $4.5 billion. Therefore, we believe the existing program is working in many States. The problem is that not all of the States have established effective agencies. Twenty-six States and territories had existing programs prior to the education amendments of 1976. Thirteen States and territories have established agencies since then and 15 are still considering the establishment of a State agency. Texas is one of the larger of those now considering a State agency. Because of the State-by-State differences in the overall development and implementation of loan programs, there are indeed serious regional discrepancies in the availability of loan capital. However, there is also strong evidence to suggest that capital availability is not a problem for the majority of students in certain States. Therefore, it would appear that a proven solution does exist, if the Office of Education will simply work realistically with the States that are still developing agencies and build upon those successful State experiences where capital is available.

Critics of the existing system are quick to assume that the solution is simply to create a national student loan bank. While this is an interesting concept, one must first raise the obvious question of how such an arrangement is financed. While many feel that the dollars could be made available from the Federal Financing Bank, they fail to consider the increased burden this would create upon the U.S. Treasury. In addition, all off-budget financing mechanisms may soon be included in the annual budget expenditures. If such a mechanism was used, it is very likely that the substantial dollars for such a scheme would, in a very short time, erode the financial support for existing grant programs, not to mention the tremendous loss of private capital which is currently generated through private funding. While the existing system may be more costly than other approaches, the total cost differentiations are not as substantial as one would be led to believe.

Another factor which also has contributed significantly to the availability of capital is the uncertainty that exists in the guaranteed student loan program. Many States and private lenders remember the fiascoes of the old FISL program and are hesitant to participate in the guaranteed student loan program. These States need to be assured that the program will have stability and that it will not be changed continually or complicated with bureaucratic redtape. Therefore, the most sensible approach would be to enable the existing legislation to reach its full maturity.

Concerns in the existing system over using interest subsidies are primarily incorrect perceptions about the impact of inflation and money market conditions. A recent example, prepared by a knowledgable banker, showed that a student borrowing $2,500 at the beginning of the freshman year bearing interest at 12 percent per annum, accrued until 1 year after graduation, will make 120 monthly payments of $63.21, totaling $7,585. By comparison, the same loan under the present federally subsidized student loan program would require 120 monthly payments of $29.03, totaling almost $3,500. In the latter case, the student would save $4,101, and yet the subsidies would have cost the Government only $2,200. To expect the student who is in need of the loan to pay this higher cost is likely to discourage him from attending school, or overburden him with debt.

While a centralized student loan bank might appear to eliminate the current subsidies, there are other costs that will take their place. In the long run, a student loan bank proposal will mean either increased costs to the student in obtaining loans or the national student loan bank itself will have to be subsidized. In order to know the true dollar impact, a detailed cost analysis should be completed.

Another criticism of the existing programs is that current collection activities are deficient. Critics of the existing system are quick to suggest that the Federal Government can do a better job of collecting student loans. While it is true that the Federal Government's current collection statistics are very impressive, it is important that we examine them carefully before accepting this as a true panacea. In earlier testimony before this subcommittee, it was noted that HEW is converting 2,500 accounts per week to payment status. While this is an impressive statistic, there was no mention of the fact that OE has increased its collection staff nearly tenfold; nor were costs for telephones, postage, computer hardware, office space, or other related expenses even mentioned. Many of the thousands of dollars that OE is reporting as resolved, or collected, are, in reality, only being reclassified as current. Many of the Government's collectors are not, as a general rule, collecting the full delinquent amount on loans they are assigned to handle. They are instructed to merely set up payments on their first demand. Once a payment is received, OE classifies the total loan balance as current. In some cases, the payments will not even keep the interest current. There are no established guidelines requiring a delinquent borrower to show proof that he is unable to do anything but make small payments. OE's collectors accept these arrangements because their performance is judged more on the number of loans that are reclassified as current with small payments, rather than the number of loans collected in full. Some OE collectors also have been given settlement authority on loans that fall in certain categories. Unfortunately, the categories are not related to the legality of the account, but to the borrower's persistent refusal to pay.

NDSL regulations, on the other hand, require institutions, in certain cases, to bring suit against borrowers. While these are but a few of the facts which distort the true picture of the Government's collection efforts, given the size and enormous volume of outstanding student loan accounts, is it even reasonable to assume that anyone, including the Government, could handle this volume? A recent report by the Government Accounting Office would suggest that even the existing private collection agencies are currently not able to handle this kind of volume. Any plan to centralize all loan collections should be phased in very gradually.

Given these reasons and the present conditions surrounding the student loan program, NASFAA is recommending only minor legislative changes to the existing student loan programs.

At the present time, like you, we are concerned with the implications proposed by the administration. Our knowledge right now is more as a result of informal conversations. We are very anxious to know more of these details. Very likely, once we do know the details and are able to examine them, their costs and the administrative ramifications, we may very well support some of the features, but we will wait until we have the details as required.

This concludes my formal statement. Of course, I will be anxious to answer any questions you may have.

Mr. FORD. Thank you very much.

[The prepared statement of Arthur Fritz follows:]

STATEMENT BY THE
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

before the

SUBCOMMITTEE ON POSTSECONDARY EDUCATION
U.S. HOUSE OF REPRESENTATIVES

May 30, 1979

presented by

Arthur J. Fritz
Director
Commission on Governmental Affairs

Mr. Fritz is accompanied by:
A. Dallas Martin, Jr., Executive Director

Mr. Chairman and Members of the Subcommittee, it is indeed a pleasure to have the opportunity to appear before you to discuss the Title IV student assistance loan programs. I am Arthur J. Fritz, Director of Financial Aid Resources at Syracuse University, and current director of NASFAA's Commission on Governmental Affairs. Accompanying me today is Dr. Dallas Martin, Executive Director of NASFAA.

Today we would like to discuss briefly some of the specific recommendations which we previously presented to you concerning the National Direct Student Loan Program (NDSL) and the Guaranteed Student Loan Program (GSL), and to address several other issues which currently impact these programs.

NASFAA has reviewed carefully the existing legislation governing the NDSL and GSL programs, and we have compared this language with the actual administrative and operational experiences that our institutional members have had with these programs since their inception.

In addition, NASFAA, in cooperation with the American Council on Education, held an invitational symposium on the student loan programs on April 10-11, 1978, in an effort to systematically review student loan alternatives in preparation for this reauthorization of the Title IV legislation. The papers presented at the symposium are contained in the publication, Student Loans: Alternatives for Reauthorization, which has been given to each member of the subcommittee.

We also have reviewed carefully the criticisms directed to these programs from numerous parties in the past 24 months, and have studied the numerous proposals that have been advanced to change the federal loan programs.

Having completed this review, we are of the opinion that most people simply do not understand the various features contained in the existing legislation and that most of the well-intentioned alternatives to improve the current loan programs fail to reveal the true costs and administrative problems that would be involved if the options were adopted.

For these reasons, the changes which NASFAA has proposed are primarily technical in nature and strongly support the continuation of the two programs in their existing basic structure. To better understand why we have taken this approach, let us examine the most common complaints about the existing programs.

One of the primary criticisms of the existing programs is that default rates are too high, particularly in the NDSL program. While it is true that default rates in student loans are higher than what we would desire, it is important to examine the factors causing this situation.

The NDSL program is now 21 years old, and yet the overall national default rate for this program is currently 17.37%. Unlike other lending arrangements which include credit checks, collateral, co-signers, etc., National Direct Student Loans are awarded to students demonstrating financial need, enrolled at least half-time, and maintaining satisfactory academic progress. In fact, since its creation, the primary purpose of the NDSL program has been simply to assist needy students in completing their education. While it is generally understood that students will repay the funds after they leave the institution, the primary emphasis has seldom been upon collections. We fully realize that this lack of emphasis primarily rests with certain institutions which have not fulfilled their responsibilities. However, there is also complete historical documentation to show that the Office of Education seldom has penalized institutions with high delinquency and default rates. In fact, only in the past year has the Office of Education begun seriously to deal with the NDSL default problem. Congress, on the other hand, has addressed the problem on several occasions. For example, in 1972 Congress amended the statute enabling institutions to write off and assign their rights to the Office of Education for NDSL accounts which had been in default for at least two years despite due diligence on the part of the institution.

Unfortunately, the Office of Education did not establish procedures to allow such assignment until this past year. This is not particularly surprising since the regulations implementing the 1972 Education Amendments to the NDSL program were not actually finalized by OE until a month after the legislation had expired in 1976. The 1976 legislative changes were not promulgated into final regulations until August 24, 1978.

In spite of these and many other administrative deficiences which have occurred during the 21-year history of the NDSL program, the fact remains that this program is still one of the most successful student aid programs initiated by the United States Congress.

Default rates in the Guaranteed Student Loan Program also have been criticized as being too high. However, again, the facts will show that the state agencies have maintained a default rate of less than half the Federal Insured Student Loan rate.

While default rates are a factor that need to be addressed, we would oppose those alternatives which would assign student loan collection activity to the Internal Revenue Service. The reinstatement of IRS skip tracing procedures, coupled with serious administrative attention by OE, state agencies and institutions, will resolve the current concerns about high student loan defaults.

Another criticism of the existing programs is that needed capital is not available to all students. Again, one must examine the facts carefully. Statistics contained in a recent report released by United Student Aid Funds show that during the 11-year period prior to the Educational Amendments of 1976, state and private agencies guaranteed a total of $5.2 billion in student loans. In the three years since the 1976 Amendments, the agencies have guaranteed $4.5 billion. Therefore, we believe the existing program is working in many states. The problem is that not all of the states have established effective agencies. Twenty-six states and territories had existing programs prior to the Education Amendments of 1976. Thirteen states and territories have established agencies since then and 15 are still considering the establishment of a state agency. Because of the state by state differences in the overall development and implementation of loan programs, there are indeed serious regional discrepencies in the availability of loan capital. However, there is also strong evidence to suggest that capital availability is not a problem for the majority of students in certain states. Therefore, it would appear that a proven solution does exist, if the Office of Education will simply work realistically with the states that are still developing agencies and build upon those successful state experiences where capital is available.

Critics of the existing system are quick to assume that the solution is simply to create a national student loan bank. While this is an interesting concept, one must first raise the obvious question of how such an arrangement is financed. While many feel that the dollars could be made available from the Federal Financing Bank, they fail to consider the increased burden this would create upon the United States Treasury. In addition, all off-budget financing mechanisms may soon be included in the annual budget expenditures. If such a mechanism was used, it is very likely that the substantial dollars for such a scheme would, in a very short time, erode the financial support for existing grant programs, not to mention the tremendous loss of private capital which is currently generated through private funding. While the existing system may be more costly than other approaches, the total cost differentiations are not as substantial as one would be led to believe.

Another factor which also has contributed significantly to the availability of capital is the uncertainty that exists in the Guaranteed Student Loan Program. Many states and private lenders remember the fiascos of the old FISL program and are hesitant to participate in the Guaranteed Student Loan Program. These states need to be assured that the program will have stability and that it will not be changed continually or complicated with bureaucratic red tape. Therefore, the most sensible approach to the resolution of capital availability shortages would be to enable the existing legislation to reach its full maturity.

Concerns in the existing system over using interest subsidies are primarily incorrect perceptions about the impact of inflation and money market conditions. A recent example, prepared by a knowledgeable banker, showed that a student borrowing $2,500 at the beginning of the freshman year bearing interest at 12% per annum, accrued until one year after graduation, will make 120 monthly payments of $63.21, totaling $7,585. By comparison, the same loan under the present federally subsidized student loan program would require 120 monthly payments of $29.03, totaling $3,484. In the latter case, the student would save $4,101, and yet the subsidies would have cost the government only $2,200. To expect the student who is in need of the loan to pay this higher cost is likely to discourage him from attending school, or overburden him with debt.

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NDSL regulations, on the other hand, require institutions, in certain cases, to bring suit against borrowers. While these are but a few of the facts which distort the true picture of the government's collection efforts, given the size and enormous volume of outstanding student loan accounts, is it even reasonable to assume that anyone, including the government, could handle this volume? A recent report by the Government Accounting Office would suggest that even the existing private collection agencies are currently not able to handle this kind of volume. Any plan to centralize all loan collections should be phased in gradually.

Given these reasons and the present conditions surrounding the student loan program, NASFAA is recommending only minor legislative changes to the existing student loan programs. Since we have already provided the Subcommittee with a complete listing of all of our changes, allow me to highlight some of our recommendations.

In the Guaranteed Student Loan Program, we would increase the aggregate maximum for an undergraduate student from $7,500 to $10,000, and from $15,000 to $25,000 for graduate students. While we realize that these limits are fairly substantial increases, it is important to remember that institutional costs are currently increasing at approximately 9% per year. Given the fact that at some higher cost institutions the student's total cost is $8,000 a year, a $10,000 undergraduate aggregate limit appears to be reasonable. In addition, we have recommended that the repayment period for any student who borrows more than $10,000 should be extended to a 15-year period. We also have included the option of a borrower to request graduated periodic installments (to be determined in accordance with such schedules as may be approved by the lender). Hopefully, such a plan would help to reduce potential student defaults by enabling a borrower to make smaller initial repayments when he first enters the job market.

Another change which we have included is to authorize the Commissioner to provide to lenders and state guarantee agencies the names and addresses of borrowers from any available source, including the Internal Revenue Service. In the NDSL program, we also have suggested that the Commissioner provide the same skip-tracing services to institutions.

Another change which we have recommended is that when NDSL notes are assigned to OE, any funds collected would be returned proportionately to the institution and to the succeeding year's federal capital contribution allotment. Currently all funds revert to the Treasury, which has the effect of diluting the fund. This change will also enable some state institutions which are currently prohibited by state law from surrendering a state asset to the federal government, to assign their defaulted NDSL notes to the Office of Education for collection.

We would also recommend that the aggregate NDSL loan limit for undergraduates be increased from $5,000 to $10,000, and that the aggregate graduate/undergraduate limit be increased from $10,000 to $20,000. Likewise, we would recommend increasing the aggregate limit for students in less than a four-year baccalaureate program from $2,500 to $5,000, except that a student who has not successfully completed one academic year may not borrow more than $2,500.

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We have also recommended that any portion of a loan or interest which is canceled under section 465A not be considered as income for purposes of federal income taxation under the Internal Revenue Code of 1954.

This concludes our testimony. However, we would be pleased to answer any questions which you may have.

Mr. Ford. Thank you very much.

Now we have Mr. Paratore, International Liaison, Inc., U.S. Catholic Coordinating Center for Lay Volunteer Ministries.

Mr. Paratore?

STATEMENT OF MATTHEW R. PARATORE, EXECUTIVE SECRETARY, INTERNATIONAL LIAISON, INC., U.S. CATHOLIC COORDINATING CENTER FOR LAY VOLUNTEER MINISTRIES, WASHINGTON, D.C., ACCOMPANIED BY STEPHEN KURZMAN, COUNSEL, NIXON, HARGRAVE, DEVANS & DOYLE, AND FATHER DAVID J. HINCHEN, DIRECTOR, JESUIT VOLUNTEER CORPS EAST

Mr. Paratore. Thank you, Mr. Chairman.

My name is Matthew R. Paratore, and I am Executive Secretary of International Liaison, Inc., U.S. Catholic Coordinating Center for Lay Volunteer Ministries, an affiliate of the U.S. Catholic Conference.

Following your chairman's cordial request this February, we have submitted to the subcommittee three proposed amendments to the student loan provisions of the Higher Education Act and related acts which would extend to full-time volunteers in private, nonprofit, antipoverty projects, the same deferment of loan repayment during their service that is currently provided for volunteers in the Peace Corps, VISTA, and the other federally sponsored volunteer corps. Clearly, such deferment would be an important recruiting tool for private groups, as it has been for the Federal volunteer programs.

I would ask that a copy of the transmittal letter and our proposed amendments be printed in the hearing record at the end of my testimony.

Mr. Ford. Without objection, it will be so ordered.

Mr. Paratore. Let me stress at the outset that the benefits of these amendments would by no means be limited to religious volunteer projects. Thus we are delighted to be joined in this testimony by the Commission of Voluntary Service in Action, CVSA, a member of those executive committee, J. Wilbur Patterson, is here with me today to answer any questions you may have about the effect of our amendments on its affiliates, which are predominantly nonsectarian, nonprofit organizations and projects.

Also with me today and available for your questioning is Father David J. Hinchen, director of Jesuit Volunteer Corps East, who can describe their volunteer projects in greater detail if you wish. And I am also accompanied by International Liaison's legal counsel, Stephen Kurzman, of Nixon, Hargrave, Devans & Doyle, who served as HEW Assistant Secretary for Legislation several years ago.

For purposes of identification, let me say something about the organizations represented here today. International Liaison is a nonprofit, tax-exempt organization headquartered here in Washington. We refer lay Catholic and other denominational individuals and people in nonsectarian beliefs, we refer them to dioceses throughout the United States and to Catholic missions both in this country and abroad.

In effect, International Liaison serves as the matchmaking arm of a private, nonprofit Peace Corps or VISTA. Jesuit Volunteers Corps East, represented here by Father Hinchen, is one of the member organizations of International Liaison, which in turn helps dioceses within its geographic area to set up volunteer projects and to recruit volunteers.

International Liaison publishes an annual compilation of volunteer projects entitled, "The Response: Volunteer Opportunities," which also describes our procedures in greater detail.

Mr. Chairman, I respectfully request that the 1979 edition of "Response" be printed in the hearing record at the end of the testimony.

Mr. FORD. Without objection, it will be so ordered.

Mr. PARATORE. CVSA, represented here by Mr. Patterson, is a nonprofit, tax-exempt organization, headquartered in New York City, consisting of private agencies which place full-time volunteers in antipoverty and community service projects both in this country and abroad. CVSA also publishes an annual compilation of volunteer projects.

I ask, Mr. Chairman, that the current edition of their publication, entitled "Invest Yourself," also be printed in the hearing record at the end of my testimony.

Mr. FORD. Without objection, it will be so ordered.

Mr. PARATORE. We also have copies here available of both "Response" and "Invest Yourself" for members of the committee and anyone who would wish a copy.

My colleagues and I are most grateful for the opportunity to present this testimony to you, particularly because we realize how many amendments have been proposed for consideration in your deliberations on the pending extension of the Higher Education Act.

Our amendments embody a relatively small principle in that vast context, but it is a principle of major importance to the concept of volunteer service for social and humanitarian purposes, which is an American tradition. While part-time volunteer service is also a significant part of American life, it is not the subject of these amendments.

We are concerned here only with full-time volunteers, who work full time, sometimes for as long as 1 to 3 years, in nonprofit, public benefit, antipoverty and community service projects, with little or no payment for their service and usually just after they complete or leave college or graduate school.

Fostering this kind of full-time service has been adopted as national policy in the establishment of the Peace Corps for overseas projects and in VISTA and other antipoverty programs for domestic projects. These Federal programs rely heavily in recruitment upon young people, whose ability to volunteer for a period of a year or two would often be severely hampered by student loan repayment obligations.

For this reason the Higher Education Act was amended to defer repayment of federally funded or insured student loans during a volunteer's service in the Peace Corps or the domestic antipoverty volunteer programs, for a maximum period of 3 years.

However, many private, nonprofit, charitable, educational and religious organizations also sponsor projects in the United States and overseas which utilize volunteers in the same types of projects as the Peace Corps and VISTA. In some instances, private volunteers work side by side with Peace Corps or VISTA volunteers. But under current law the private full-time volunteers are, in effect, discriminated against because they are not eligible for the loan deferment available to their federally sponsored coworkers.

This discrepancy has the effect of discouraging private, full-time volunteerism on the part of young college graduates. To remedy this gap in the law, which obviously was only an oversight and not intentional, congressional enactment is necessary. Such an enactment has the support of the director and I would ask that the recent testimony of the director be printed in the hearing record at the end of my testimony.

Mr. Ford. Without objection, it will be so ordered.

Mr. Paratore. Our amendments would extend to private full-time volunteers the existing loan deferment provisions of, respectively, the National Direct Student Loan, Federally Insured Student Loan, and, for consistency's sake, National Defense Student Loan Programs.

The rationale for all three amendments is, of course, the same, and the language of the three differs only to the extent required by the slightly different language in the three existing deferment sections.

All three amendments are drafted so as to require sponsorship by tax-exempt charitable, educational, religious, or similar organizations, that is, only those which qualify for tax exemption by the Internal Revenue Service under section 501(c)(3) of the Tax Code. All would require service comparable to Peace Corps or VISTA service in order for the volunteer to qualify for deferment. And all would be subject to the same 3-year maximum on the deferment period which now applies to Peace Corps and VISTA volunteers.

An important point to note here is that the law already provides an even greater loan benefit, that is, complete forgiveness, to some former students who work for pay or as volunteers in the private sector, basically as teachers.

Our amendment only seeks to give the volunteers who are providing services other than these educational services the same loan deferment benefit that their Peace Corps/VISTA counterparts have, to begin to pay back their Federal student loans after they have completed their volunteer stints, having a paying job, and are in a financial position to begin meeting their obligations on their student loans.

Let me turn now to some basic background information on the volunteers to whom we propose the Congress grant loan deferment. My colleagues and I believe that our organizations, International Liaison and CVSA, while by no means the only organizations concerned with volunteerism on a national basis, have so far made the most comprehensive efforts to collect information about private, full-time volunteer projects for Americans, here and abroad.

We have offered our current annual compilations of such projects for the record. From these publications and other information available to us, my colleagues and I estimate that in 1978 there were more than 2,300 full-time volunteers in private Peace Corps/VISTA-type projects here and abroad.

International Liaison alone placed approximately 500 such volunteers overseas and 1,000 in the United States. CVSA has identified another 800 or so, predominantly within this country. At least two-thirds of all these private volunteers are young adults who might be expected to have some federally assisted student loan obligations.

These figures compare with some 6,000 Peace Corps volunteers overseas and 5,000 VISTA and other full-time Federal antipoverty volunteers in this country. It is estimated that some two-thirds of these Federal volunteers are young adults who may have similar student loan obligations during their volunteer years.

In our judgment, these figures show that there is a significant addition being made by private volunteers to the total amount of antipoverty work being done in this country and abroad, but that the absolute numbers are not large and do not exceed the numbers in the federally sponsored volunteer corps.

We are committed to expanding the private effort, and we believe that the extension of student loan deferment to the private volunteers will help to expand it.

Again, based on the two publications, let me outline briefly the kinds of organizations the private volunteers are working for. All, of course, are tax-exempt 501(c)(3) organizations, to begin with. And all use full-time volunteers in their projects.

Invest Yourself lists 83 such organizations, including 72 groups which have no religious affiliation, 7 which are Protestant, 3 Catholic organizations, consisting of International Liaison, and 2 of its affiliates, and 1 Jewish group.

Response catalogs 89 Catholic organizations, 2 nondenominational groups, and 1 ecumenical religious organization. The total number of separate groups listed in these two publications is 172, including 74 nonsectarian and 98 religous groups. The actual number of individual projects which are sponsored by these organizations is harder to estimate, since many groups operate more than one hospital or clinic or other volunteer site.

As our amendments are drafted, they would extend loan deferment only to those volunteers, in projects sponsored by such organizations, whose actual service is comparable to the antipoverty and community development service of Peace Corps or VISTA or other Federal antipoverty volunteers.

Looking at the material in our two publications, the great preponderance of services being provided by these private volunteers are the same as or comparable to those provided by their federally sponsored volunteer counterparts.

For example, the Peace Corps and VISTA categorize their projects under seven basic headings. Using those headings, we find that volunteers sponsored by the groups listed in our publications provide the following services:

Sixty groups provide what the Peace Corps and VISTA call community services, mostly in rural and urban poverty areas in this country, using volunteers who serve as senior citizen aides, youth workers, child care center personnel, co-op managers, recreation workers, and in support roles such as bus drivers, secretaries, and carpenters.

The Jesuit Volunteer Corps projects are excellent examples of this category, and Father Hinchen can give you greater detail, if you wish.

Fifty-six provide what the Peace Corps and VISTA call knowledge and skills, including vocational and technical education to the disadvantaged and special education to the handicapped, and use volunteers as teachers, tutors, craft workers, business managers, and secretaries.

Most of these projects are in the United States. As I have noted above, those volunteers who fit the educational criteria of existing law already receive full forgiveness of their Federal student loans and therefore will not be affected by our proposed amendments. But the other volunteers in this category, who do not fit the forgiveness criteria, would benefit from our deferment amendments. A good example of this category is the Red Cloud Indian School in Pine Ridge, S. Dak.

Thirty-four of the listed groups provide health and nutrition services, mostly overseas, using full-time volunteer physicians, dentists, nurses, therapists, dieticians, lab and other medical technicians, and health and hygiene counselors. Typical of this category overseas is MEDICO, a service of CARE; typical in the United States is the East Coast Migrant Health Project, which is a totally federally funded program.

Twenty organizations provide housing services, predominantly in this country and in rural areas, with volunteers serving as carpenters and other skilled tradesmen, construction workers, mechanics, and handymen. Good examples of this category are American Friends Service Committee projects in Latin America and projects throughout the United States of the Brethren Volunteer Service, headquartered in Elgin, Ill.

Thirteen are engaged in what Peace Corps/VISTA call "Food and Water," about half of them overseas and half in this country. These projects use volunteers as farmers and agriculturalists, environmentalists, and co-op managers. The Mountainview Development program, Clarksville, Ga., is a domestic example in this category.

Nine groups provide services in the Peace Corps/VISTA category "Economic Development and Income," again half and half, domestic and foreign. In this category are volunteers who are accountants, lawyers, paralegals, and community organizers. Projects of the Jesuit Volunteer Corps and the Coalition of Concerned Legal Professionals, Sacramento, Calif., include examples of this type of project.

Finally, six groups are engaged in conservation and energy projects here and abroad, utilizing volunteer engineers and environmentalists. International Voluntary Service here in Washington, which is an example of this category, places engineers in developing countries in rural development projects aimed at benefiting low-income groups.

Our point in presenting this breakdown of projects is that a very large proportion of the private, full-time volunteer service now being provided here and abroad, is indeed comparable to the service being provided by Peace Corps and VISTA volunteers. Accordingly, we believe that in all fairness, such private volunteers should be entitled to the same loan deferment as their Peace Corps/VISTA counterparts.

Please note that the foregoing breakdown of project types adds up to a somewhat larger number than the total number of organizations, since some organizations operate projects which fit into more than one of the categories.

Let me conclude my statement by addressing a question the subcommittee is sure to ask: Would the proposed loan deferment violate the first amendment separation of church and state?

As we have noted, more than 40 percent of the groups which we and CVSA have cataloged are wholly nonsectarian. For the remainder, which have religious sponsorship, the volunteers are providing secular services which are comparable to the services provided by Peace Corps and VISTA volunteers.

The amendments would provide loan deferment only to those volunteers. Volunteers performing religious services would not be eligible for loan deferment. The sponsoring agency would have to certify this, as well as its own 501(c)(3) status and the full-time volunteer status of the deferment applicant, to the bank, in the case of guaranteed student loans, or to the college in the case of national direct student loans. While there is no case directly in point, we believe this proposed arrangement would be fully constitutional.

Our proposal would provide the very limited Federal benefit of deferring repayment on a Federal student loan. Where the loan in the first instance has been made to a student in a church-related college, the Federal benefit is obviously even greater.

Federal student aid programs have not been tested constitutionally in the courts but a parallel case involving a State of Tennessee student aid program has been upheld by the U.S. Supreme Court. (*Americans United for the Separation of Church and State* v. *Blanton*, 433 F. Suppl. 97 (M.D., Tenn.), affirmed without opinion, 434 U.S. 803 (1977).)

Similarly, the fact that a volunteer would be receiving the deferment while working for a church-sponsored project should not pose a constitutional problem, since the volunteer must, to qualify for the deferment, be performing a secular, Peace Corps/VISTA-type service.

The closest parallels are the Supreme Court decisions upholding State-funded bus services (*Everson* v. *Board of Education*, 330 U.S. 1 (1947)) and textbooks (*Board of Education* v. *Allen*, 392 U.S. 236 (1968)) to students in parochial elementary and secondary schools.

These cases stand for the proposition that the first amendment does not bar government assistance to a secular activity solely because a church-related organization may derive some incidental benefit from the assistance. Clearly, our proposed deferment would primarily benefit the volunteer and only secondarily the host agency.

Because our amendments have been tightly drawn with this standard in mind, we believe they do not raise any substantial constitutional doubts.

Again, Mr. Chairman and members of the subcommittee, we deeply appreciate having this opportunity to testify and we strongly urge your support of our amendments, which will go a long way toward encouraging private volunteerism in the public interest and with no Federal cost.

[Prepared testimony and attachments referred to follow:]

TESTIMONY
BEFORE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
U.S. HOUSE OF REPRESENTATIVES
ON
AMENDMENTS TO HIGHER EDUCATION ACT

BY

INTERNATIONAL LIAISON, INC.,
U.S. CATHOLIC COORDINATING
CENTER FOR LAY VOLUNTEER
MINISTRIES

AND

COMMISSION ON VOLUNTARY
SERVICE IN ACTION

MAY 30, 1979

Mr. Chairman and Members of the Subcommittee:

My name is Matthew R. Paratore, and I am Executive Secretary of International Liaison, Inc., U.S. Catholic Coordinating Center for Lay Volunteer Ministries, an affiliate of the U.S. Catholic Conference. Following your Chairman's cordial request this February, we have submitted to the Subcommittee three proposed amendments to the student loan provisions of the Higher Education and related Acts which would extend to full-time volunteers in private, non-profit, antipoverty projects, the same deferment of loan repayment during their service that is currently provided for volunteers in the Peace Corps, VISTA and the other Federally-sponsored volunteer corps. Clearly, such deferment would be an important recruiting tool for private groups, as it has been for the Federal volunteer programs.

Let me stress at the outset that the benefits of these amendments would by no means be limited to religious volunteer projects. Thus we are delighted to be joined in this testimony by the Commission on Voluntary Service in Action ("CVSA"), a member of whose Executive Committee, J. Wilbur Patterson, is here with me today to answer any questions you may have about the effect of our amendments on its affiliates, which are predominantly non-sectarian, nonprofit organizations and projects.

Also with me today and available for your questioning is Father David J. Hinchen, Director of Jesuit Volunteer Corps East, who can describe their volunteer projects in greater detail if you wish. And I am also accompanied by International Liaison's legal counsel, Stephen Kurzman, of Nixon, Hargrave, Devans & Doyle, who served as HEW Assistant Secretary for Legislation several years ago.

For purposes of identification, let me say something about the organizations represented here today. International Liaison is a non-profit, tax-exempt organization headquartered here in Washington. We refer lay Catholic[2] full-time volunteers, recruited in dioceses throughout the United States, to Catholic missions both in this country and abroad. In effect, International Liaison serves as the match-making arm of a private, nonprofit Peace Corps or VISTA. Jesuit Volunteers Corps East, represented here by Father Hinchen, is one of the member organizations of International Liaison, which in turn helps dioceses within its geographic area to set up volunteer projects and to recruit volunteers. International Liaison publishes an annual compilation of volunteer projects entitled, The Response: Volunteer Opportunities, which also describes our procedures in greater detail. Mr. Chairman, I respectfully request that the 1979 edition of Response be printed in the hearing record at the end of my testimony. 3

CVSA, represented here by Mr. Patterson, is a non-profit, tax-exempt organization, headquartered in New York City, consisting of private agencies which place full-time volunteers in antipoverty and community service projects both in this country and abroad. CVSA also publishes an annual compilation of volunteer projects. I ask, Mr. Chairman, that the current edition of their publication, entitled Invest Yourself, also be printed in the hearing record at the end of my testimony. (4)

My colleagues and I are most grateful for the opportunity to present this testimony to you, particularly because we realize how many amendments have been proposed for consideration in your deliberations on the pending extension of the Higher Education Act. Our amendments embody a relatively small principle in that vast context, but it is a principle of major importance to the concept of volunteer service for social and humanitarian purposes, which is an American tradition. While part-time volunteer service is also a significiant part of American life, it is not the subject of these amendments. We are concerned here only with full-time volunteers, who work full time, sometimes for as long as one to three years, in non-profit, public benefit, antipoverty and community service projects, with little or no payment for their service and usually just after they complete or leave college or graduate school. Fostering this kind of full-time service has been adopted as national policy in the establishment of the Peace Corps for overseas projects and in VISTA and other antipoverty programs for domestic projects. These Federal programs rely heavily in recruitment upon young people, whose ability to volunteer for a period of a year or two would often be severely hampered by student loan repayment obligations. For this reason the Higher Education Act was amended to defer repayment of Federally-funded or insured student loans during a volunteer's service in the Peace Corps or the domestic antipoverty volunteer programs, for a maximum period of three years.

However, many private, non-profit, charitable, educational and religious organizations also sponsor projects in the United States and overseas which utilize volunteers in the same types of projects as the Peace Corps and VISTA. In some instances, private volunteers work side-by-side with Peace Corps or VISTA volunteers. But under current law the private full-time volunteers are, in effect, discriminated against because they are not eligible for the loan deferment available to their Federally-sponsored co-workers.

This discrepancy has the effect of discouraging private, full-time volunteerism on the part of young college graduates. To remedy this gap in the law, which obviously was only an oversight and not intentional ⑤ our amendments would extend to such private full-time volunteers the existing loan deferment provisions of, respectively, the National Direct Student Loan, Federally-Insured Student Loan, and (for consistency's sake) National Defense Student Loan Programs. The rationale for all three amendments is, of course, the same, and the language of the three differs only to the extent required by the slightly different language in the three existing deferment sections. All three amendments are drafted so as to require sponsorship by tax-exempt charitable, educational, religious or similar organizations, that is, only those which qualify for tax exemption by the Internal Revenue Service under Section 501(c)(3) of the Tax Code. All would require service comparable to Peace Corps or VISTA service in order for the volunteer to qualify for deferment. And all would be subject to the same three-year maximum on the deferment period which now applies to Peace Corps and VISTA volunteers.

An important point to note here is that the law already provides an even greater loan benefit -- that is, complete forgiveness -- to some former students who work, for pay or as volunteers, in the private sector. All three loan statutes provide for loan cancellation for those who serve as (1) full-time teachers in public or non-profit private elementary or secondary schools in school districts eligible for Title I, Education for the Disadvantaged, funds; (2) full-time staff members in Headstart preschool programs; or (3) as full-time teachers of handicapped children in public or other non-profit elementary or secondary schools. Our proposed amendments do not seek this great a loan benefit for the private volunteers whose work does not fit these three educational categories. We recognize and endorse the Congressional intent behind the existing forgiveness provisions: that these educational roles should get the highest priority and therefore the best loan benefit incentive. Our amendment only seeks to give the volunteers who are providing services other than these educational services the same loan deferment benefit that their Peace Corps/VISTA counterparts have, to begin to pay back their Federal student loans after they have completed their volunteer stints, have a paying job, and are in a financial position to begin meeting their obligations on their student loans.

Let me turn now to some basic background information on the volunteers to whom we propose the Congress grant loan deferment. My colleagues and I believe that our organizations, International Liaison and CVSA, while by no means the only organizations concerned with volunteerism on a national basis, have so far made the most comprehensive efforts to collect information about private, full-time volunteer projects for Americans, here and abroad. We have offered our current annual compilations of such projects for the record. From these publications and other information available to us, my colleagues and I estimate that in 1978 there were more than 2300 full-time volunteers in private Peace Corps/VISTA-type projects here and abroad. International Liaison alone placed approximately 500 such volunteers overseas and 1,000 in the United States. CVSA has identified another 800 or so, predominantly within this country. At least two-thirds of all these private volunteers are young adults who might be expected to have some Federally-assisted student loan obligations. These figures compare with some 6,000 Peace Corps volunteers overseas and 5,000 VISTA and other full-time Federal antipoverty volunteers in this country. It is estimated that some two-thirds of these Federal volunteers are young adults who may have similar student loan obligations during their volunteer years. In our judgment, these figures show that there is a significant addition being made by private volunteers to the total amount of anti-poverty work being done in this country and abroad, but that the absolute numbers are not large and do not exceed the numbers in the Federally-sponsored volunteer corps. We are committed to expanding the private effort, and we believe that the extension of student loan deferment to the private volunteers will help to expand it.

Again, based on the two publications, let me outline briefly the kinds of organizations the private volunteers are working for. All, of course, are tax-exempt "501(c)(3)" organizations, to begin with. And all use full-time volunteers in their projects. Invest Yourself lists 83 such organizations, including 72 groups which have no religious affiliation, seven which are Protestant, three Catholic organizations (consisting of International Liaison and two of its affiliates), and one Jewish group. Response catalogues 89 Catholic organizations, two non-denominational groups, and one ecumenical religious organization. The total number of separate groups listed in these two publications is 172, including 74 non-sectarian and 98 religious groups. The actual number of individual projects which are sponsored by these organizations is harder to estimate, since many groups operate more than one hospital or clinic or other volunteer site.

As our amendments are drafted, they would extend loan deferment only to those volunteers, in projects sponsored by such organizations, whose actual service is comparable to the anti-poverty and community development service of Peace Corps or VISTA or other Federal anti-poverty volunteers. Looking at the material in our two publications, the great preponderance of services being provided by these private volunteers are the same as or comparable to those provided by their Federally-sponsored volunteer counterparts. For example, the Peace Corps and VISTA categorize their projects under seven basic headings. Using those headings, we find that volunteers sponsored by the groups listed in our publications provide the following services:

60 groups provide what the Peace Corps and VISTA call "Community Services," mostly in rural and urban poverty areas in this country, using volunteers who serve as senior citizen aides, youth workers, child care center personnel, co-op managers, recreation workers, and in support roles such as bus drivers, secretaries, and carpenters. The Jesuit Volunteer Corps projects are excellent examples of this category, and Father Hinchen can give you greater detail, if you wish.

56 provide what the Peace Corps and VISTA call "Knowledge and Skills," including vocational and technical education to the disadvantaged and special education to the handicapped, and use volunteers as teachers, tutors, craft workers, business managers,

and secretaries. Most of these projects are in the United States. As I have noted above, those volunteers who fit the educational criteria of existing law already receive full forgiveness of their Federal student loans and therefore will not be affected by our proposed amendments. But the other volunteers in this category, who do not fit the forgiveness criteria, would benefit from our deferment amendments. A good example of this category is the Red Cloud Indian School in Pine Ridge, South Dakota.

34 of the listed groups provide Health and Nutrition services, mostly overseas, using full-time volunteer physicians, dentists, nurses, therapists, dieticians, lab and other medical technicians, and health and hygiene counselors. Typical of this category overseas is MEDICO, a service of CARE; typical in the United States is the East Coat Migrant Health Project, which is a totally Federally-funded program.

20 organizations provide Housing services, predominantly in this country and in rural areas, with volunteers serving as carpenters and other skilled tradesmen, construction workers, mechanics and handymen. Good examples of this category are American Friends Service Committee projects in Latin America and projects throughout the U.S. of the Brethren Volunteer Service, headquartered in Elgin, Illinois.

13 are engaged in what Peace Corps/VISTA call "Food and Water," about half of them overseas and half in this country. These projects use volunteers as farmers and agriculturalists,

environmentalists, and co-op managers. The Mountainview Development Program, Clarksville, Georgia, is a domestic example in this category.

9 groups provide services in the Peace Corps/VISTA category "Economic Development and Income," again half and half, domestic and foreign. In this category are volunteers who are accountants, lawyers, paralegals, and community organizers. Projects of the Jesuit Volunteer Corps and the Coalition of Concerned Legal Professionals, Sacramento, California, include examples of this type of project.

Finally, 6 groups are engaged in Conservation and Energy projects here and abroad, utilizing volunteer engineers and enviornmentalists. International Voluntary Service here in Washington, which is an example of this category, places engineers in developing countries in rural development projects aimed at benefitting low-income groups.

Our point in presenting this breakdown of projects is that a very large proportion of the private, full-time volunteer service now being provided here and abroad, is indeed comparable to the service being provided by Peace Corps and VISTA volunteers. Accordingly, we believe that in all fairness, such private volunteers should be entitled to the same loan deferment as their Peace Corps/VISTA counterparts.

Please note that the foregoing breakdown of project types adds up to a somewhat larger number than the total number of organizations, since some organizations operate projects which fit into more than one of the categories.

Let me conclude my statement by addressing a question the Subcommittee is sure to ask: would the proposed loan deferment violate the First Amendment separation of church and state? As we have noted, more than 40 percent of the groups which we and CVSA have catalogued are wholly non-sectarian. For the remainder, which have religious sponsorship, the volunteers are providing secular services which are comparable to the services provided by Peace Corps and VISTA volunteers. The amendments would provide loan deferment only to those volunteers. Volunteers performing religious services would not be eligible for loan deferment. The sponsoring agency would have to certify this, as well as its own 501(c)(3) status and the full-time volunteer status of the deferment applicant, to the bank (in the case of Guaranteed Student Loans) or to the college (in the case of National Direct Student Loans). While there is no case directly in point, we believe this proposed arrangement would be fully Constitutional.

Our proposal would only provide the very limited Federal benefit of deferring repayment on a Federal student loan. Where the loan in the first instance has been made to a student in a church-related college, the Federal benefit is obviously even greater. Federal student aid programs have not been tested Constitutionally in the courts, but a parallel case, involving a

State of Tennessee student aid program, has been upheld by the U.S. Supreme Court. Americans United for the Separation of Church and State v. Blanton, 433 F. Suppl 97 (M.D. Tenn.), affirmed without opinion, 434 U.S. 803 (1977).

Similarly, the fact that a volunteer would be receiving the deferment while working for a church-sponsored project should not pose a Constitutional problem, since the volunteer must, to qualify for the deferment, be performing a secular, Peace Corps/ VISTA-type service. The closest parallels are the Supreme Court decisions upholding state-funded bus services (Everson v. Board of Education, 330 U.S. 1 (1947)) and textbooks (Board of Education v. Allen, 392 U.S. 236 (1968)) to students in parochial elementary and secondary schools. These cases stand for the proposition that the First Amendment does not bar government assistance to a secular activity solely because a church-related organization may derive some incidental benefit from the assistance. Clearly, our proposed deferment would primarily benefit the volunteer and only secondarily the host agency. Because our amendments have been tightly drawn with this standard in mind, we believe they do not raise any substantial Constitutional doubts.

Again, Mr. Chairman and Members of the Subcommittee, we deeply appreciate having this opportunity to testify. And we strongly urge your support of our amendments, which will go a long way toward encouraging private volunteerism in the public interest and with no Federal cost.

Nixon Hargrave Devans & Doyle
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Washington, D.C. 20006

(202) 872-0044

February 22, 1979

The Honorable William D. Ford
Chairman, Subcommittee on Postsecondary Education
U. S. House of Representatives
619 House Office Building Annex #1
Washington, D. C. 20515

Dear Mr. Chairman:

Many thanks for your cordial letter of February 2, 1979 inviting our recommendations for changes, additions and deletions in the Higher Education Act.

As I have discussed with Subcommittee Counsel Tom Wolanin, we represent International Liaison, Inc., the U. S. Catholic Coordinating Center for Lay Volunteer Ministries, which is an affiliate of the United States Catholic Conference. International Liaison refers lay Catholic volunteers, recruited in dioceses throughout the United States, to Catholic missions both in this country and abroad. In effect, it serves as the match-making arm of a private, nonprofit Peace Corps or VISTA. Indeed, in some instances volunteers referred by International Liaison work side-by-side with Peace Corps or VISTA volunteers on the same projects.

However, many private volunteers suffer from a gap in current law which denies them the modest deferral of Federal student loan repayment that is available to Peace Corps and VISTA and other Anti-Poverty Act volunteers.

Accordingly, on behalf of International Liaison I am enclosing three proposed amendments, in the format which your letter requested, which would extend to such private volunteers the loan deferment provisions of, respectively, the National Direct Student Loan, Federally Insured Student Loan, and (for consistency's sake) National Defense Student Loan Programs. The rationale for all three amendments is, of course, the same. All are drafted so as to require sponsorship by tax-exempt charitable, educational, religious or similar organizations. All would require

The Honorable William D. Ford
Page 2
February 22, 1979

service comparable to Peace Corps or VISTA service—in order to qualify for the deferment. And all would be subject to the same three-year maximum on the deferment period which applies to the Peace Corps and VISTA volunteers.

Committee Report language could, of course, further instruct the regulation-writers as to the types of service and projects for which the deferment would be eligible. We would be happy to assist the Subcommittee in this regard and to offer testimony at the appropriate point during your hearings.

Thank you for your consideration of these proposals.

Sincerely,

Stephen Kurzman

Stephen Kurzman

SK/ld
Enclosures

cc: The Honorable John H. Buchanan
Thomas Wolanin, Esq.
William Clohan, Esq.

[illegible]

CURRENT LAW	SUGGESTED AMENDMENT	RATIONALE/EXPLANATION
Sec. 464(c) ... (2)(A) No repayment of principal of, or interest on, any loan from a student loan fund assisted under this part shall be required during any period in which the borrower -- ... (iii) is in service as a volunteer under the Peace Corps Act; (iv) is in service as a volunteer under Title VIII of the Economic Opportunity Act of 1964. The period during which repayment may be deferred by reason of clause (ii), (iii), or (iv) shall not exceed three years.	Section 464(c)(2)(A) of the Higher Education Act is amended by inserting, after subparagraph (iv) thereof the following new subparagraph: "(v) is in service, comparable to the service referred to in clauses (iii) or (iv), as a full-time volunteer for an organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954." Section 464(c)(2)(A) is further amended by substituting for the last sentence thereof the following: "The period during which repayment may be deferred by reason of clause (ii), (iii), (iv), or (v) shall not exceed three years."	Volunteer service for social and humanitarian purposes is an American tradition, and full-time volunteer service has been adopted as national policy in the establishment of the Peace Corps for overseas projects and in VISTA and other antipoverty programs for domestic projects. These Federal programs rely heavily in recruitment upon young people whose ability to volunteer for a period of a year or two would often be severely hampered by student loan repayment obligations. For this reason the Higher Education Act was amended to defer repayment of Federally-funded or insured student loans during a volunteer's service in the Peace Corps or the antipoverty volunteer programs, for a maximum period of three years. However, many private, nonprofit, charitable, educational and religious organizations also sponsor projects in the United States and overseas which utilize volunteers in the same types of projects as the Peace Corps and VISTA. In some instances, private volunteers work side-by-side with Peace Corps or VISTA volunteers. But under current law the private volunteers are not eligible for the loan deferment available to their Federally-sponsored co-workers. To overcome this discrepancy, which has the effect of discouraging private volunteerism on the part of young college graduates, the amendment would add to the loan deferment provision of the National Direct Student Loan Program authority to defer repayment during the period of service as a full-time volunteer in private projects where that service is comparable to the service of Peace Corps, VISTA and other Economic Opportunity Act volunteers. The amendment would limit the deferment to service in projects sponsored by tax exempt organizations of a charitable, educational, religious or similar nature. And it would also limit the deferment period to three years, as is now the case for Peace Corps and Economic

FEDERALLY INSURED STUDENT LOANS

CURRENT LAW

Sec. 427(a). A loan by an eligible lender shall be insurable by the Commissioner under the provisions of this part only if --

...

(2) is evidenced by a note or other written agreement which --

(C) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid, during any period ... (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973, ...

SUGGESTED AMENDMENT

Section 427(a) of the Higher Education Act is amended by inserting after subclause (iv) of subparagraph (2)(C) thereof, the following new subclause:

"(v) not in excess of three years during which the borrower is in service, comparable to the service referred to in clauses (iii) and (iv) above, as a full-time volunteer for an organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954,"

Section 427(a)(2)(C) is further amended by renumbering subclause (v).

RATIONALE/EXPLANATION

Volunteer service for social and humanitarian purposes is an American tradition, and full-time volunteer service has been adopted as national policy in the establishment of the Peace Corps for overseas projects and in VISTA and other antipovert programs for domestic projects. These Federal programs rely heavily in recruitment upon young people whose ability to volunteer for a period of a year or two would often be severely hampered by student loan repayment obligations. For this reason the Higher Education Act was amended to defer repayment of Federally-funded or insured student loans during a volunteer's service in the Peace Corps or the antipoverty volunteer programs, for a maximum period of three years.

However, many private, nonprofit, charitable, educational and religious organizations also sponsor projects in the United States and overseas which utilize volunteers in the same types of projects as the Peace Corps and VISTA. In some instances, private volunteers work side-by-side with Peace Corps or VISTA volunteers. But under current law the private volunteers are not eligible for the loan deferment available to their Federally sponsored co-workers.

To overcome this discrepancy, which has the effec of discouraging private volunteerism on the part of young college graduates, the amendment would add tc the loan deferment provision of the Federally Insured Student Loan Program authority to defer repayment during the period of service as a full-time volunteer in private projects where that servi is comparable to the service of Peace Corps, VISTA and other Domestic Volunteer Service Act volunteers The amendment would limit the deferment to service in projects sponsored by tax exempt organizations c a charitable, educational, religious or similar nature. And it would also limit the deferment period to three years, as is now the case for

NATIONAL DEFENSE STUDENT LOANS

CURRENT LAW	SUGGESTED AMENDMENT	RATIONALE/EXPLANATION
Sec. 205(b)(2) ... (The interest shall not accrue on any such loan, and installments need not be paid during any period ... (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, or (iv) not in excess of three years during which the borrower is in service as a volunteer under Title VIII of the Economic Opportunity Act of 1964; ...	Section 205(b)(2) of the National Defense Education Act is amended by inserting in subsection (b)(2)(A), after subclause (iv), the following new subclause: "(v) not in excess of three years during which the borrower is in service, comparable to the service referred to in clauses (iii) and (iv) above, as a full-time volunteer for an organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954"	Volunteer service for social and humanitarian purposes is an American tradition, and full-time volunteer service has been adopted as national policy in the establishment of the Peace Corps for overseas projects and in VISTA and other antipoverty programs for domestic projects. These Federal programs rely heavily in recruitment upon young people whose ability to volunteer for a period of a year or two would often be severely hampered by student loan repayment obligations. For this reason the Higher Education Act was amended to defer repayment of Federally-funded or insured student loans during a volunteer's service in the Peace Corps or the antipoverty volunteer programs, for a maximum period of three years. However, many private, nonprofit, charitable, educational and religious organizations also sponsor projects in the United States and overseas which utilize volunteers in the same types of projects as the Peace Corps and VISTA. In some instances, private volunteers work side-by-side with Peace Corps or VISTA volunteers. But under current law the private volunteers are not eligible for the loan deferment available to their Federally-sponsored co-workers. To overcome this discrepancy, which has the effect of discouraging private volunteerism on the part of young college graduates, the amendment would add to the loan deferment provision of the National Defense Student Loan Program authority to defer repayment during the period of service as a full-time volunteer in private projects where that service is comparable to the service of Peace Corps, VISTA and other Economic Opportunity Act volunteers. The amendment would limit the deferment to service in projects sponsored by tax exempt organizations of a charitable, educational, religious or similar nature. And it would also limit the deferment period to three years, as is now the case for Peace Corps and Economic Opportunity Act volunteers.

INVEST YOURSELF 1979

Published by

THE COMMISSION ON VOLUNTARY SERVICE AND ACTION

Circulation: Mrs. Nancy Duryee
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Editorial Content Prepared by: National Foundation
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HOW TO USE THIS CATALOGUE

For the past 32 years persons who operate voluntary service programs have put together a list of service oportunities. In the earlier days the list was called INVEST YOUR SUMMER. Now it is INVEST YOURSELF. Across the years the number and types of projects have changed. Increasingly INVEST YOURSELF is becoming a directory of agencies and programs.

1. Remember that this is a catalogue of opportunities, NOT A JOB RECRUITMENT SERVICE.

2. Read the Table of Contents. Serving opportunities are separated into two basic sections: for persons under 18, and for persons 18 and over. Each of these sections is further subdivided into categories of skills needed, as well as domestic or international placement for service.

3. Select a particular project for application, note code letter initials at right margin of listing. Then refer the the INDEX OF AGENCIES in the back of the book, alphabetized according to those code letter initials. You must contact this agency yourself. Each agency does its own screening and placement.

4. Take your application and acceptance seriously. If you apply to more than one project, do not fail to notify the other agencies when you have accepted an assignment or are no longer interested in their program. Do not hold more than one appointment.

5. ADDITIONAL AGENCY RESOURCES lists organizations providing a wide variety of supportive and specialized services to the voluntary service world, so use this resource list creatively. Many of these agency services may involve or require volunteers. Often they have unique volunteer positions for those willing to pursue their special interests with thoughtful inquiries and determination.

ABOUT THE COMMISSION ON VOLUNTARY SERVICE AND ACTION

The Commission on Voluntary Service and Action is a group of volunteer agencies, and agencies placing volunteers, whose goal is to maintain and expand the abilities of individuals to donate their time and services to persons in need. CVSA began in 1945 as a coordinating group to church agencies setting up work camps to help rebuild war-torn Europe. More recently its functions have been to provide assistance inthe recruitment and placement of volunteers and to upgrade the quality of the training and use of volunteers.

Since 1946 the Commission has published the yearly catalogue of volunteer service opportunities, INVEST YOURSELF, used by churches, high schools and colleges, libraries, and volunteer action centers.

In the past, CVSA has also sponsored consultations on problems common to organizations working with volunteers. Specialized consultations have dealt with such subjects as Educational Aspects of Voluntarism, Political Implications of Voluntary Service, Philosophies of Involvement, Minority Group Participation in Voluntary Service, The Use of Volunteers in Medical/Health Programs of Development, National Service, and Who Controls Voluntary Associations?

CVSA is affiliated with the Coordinating Committee for International Voluntary Service, 1 rue Miollis, Paris 15, France, which has a large membership representing every continent. Neither CVSA nor the Coordinating Committee Sponsors Voluntary service projects. Specific project inquiries and requests for application material must be directed to sponsoring organizations listed in INVEST YOURSELF and publications of CCIVS.

LOCAL AND PART-TIME SERVICE OPPORTUNITIES

Most of the listings in INVEST YOURSELF are for those able to work full-time for a few weeks, a summer, a few months, or one to three years. Many persons prefer to make a part-time committment to voluntary service within their own communities. The agencies listed below promote and stimulate local level voluntarism.

Each agency's network of local offices assists in channelling volunteers into existing local projects. Consult your telephone directory for the local office of AVBA, NCVA, or UWA which is nearest you, or write to the addresses given here. In addition each agency's National Office functions as a clearinghouse to provide information and know-how to individuals interested in creating or expanding new programs to meet the specific needs of their community. Voluntary Action Centers/Voluntary Service Bureaus are particularly helpful in this regard.

1. Association of Volunteer Bureaus of America, Inc. (AVBA)
   National Office: P.O. Box 7258, Kansas City, MO 64113
   Local Offices: Volunteer Bureaus in over 225 communities
2. United Way of America (UWA)
   National Office: 801 N. Fairfax, Alexandria, VA 22314
   Local Offices: United Funds or United Ways in 2,200 communities
3. National Center for Voluntary Action (NCVA)
   Local Offices: Volunatry Action Centers in over 300 communities

THE ASSEMBLY (a coalition of Directors of State Volunteer Programs), 411 W. 13th St., Austin, TX 78701. Since 1968, many states have developed Offices of Voluntarism. Two of the main functions of such offices are: to develop and expand the use of volunteers within state agencies and institutions; and to establish a means for the coordination of volunteer efforts within state programs and for liaison with local and private efforts.

State coordinators have offices in the following locations:

REGION I
Boston, MA
Hartford, CT
Augusuta, ME
Providence, RI
Concord, NH

REGION II
Trenton, NJ
Richmond, VA
Baltimore, MD

REGION III
Tallahassee, FL
Frankfort KY
Columbia, SC
Atlanta, GA
Raleigh, NC
Nashville, TN

REGION IV
Bismarck, ND
St. Paul, MN
Indianapolis, IN
Lansing, MI
Chicago, IL

REGION V
Little Rock, AR
Santa Fe, NM
Austin, TX
Oklahoma City, OK

REGION VI
Topeka, KS
Jefferson City, MO
Des Moines, IA

REGION VII
Salt Lake City, UT
Helen, MT

REGION VIII
Phoenix, AZ
Honolulu, HA

REGION IX
Olympia, WA
Anchorage, AK

IS FULL-TIME VOLUNTEER SERVICE YOUR CUP OF TEA?

INVEST YOURSELF is mostly about full-time volunteer service. There are millions of part-time volunteers in the world, but far fewer who are full-time. Is full-time volunteer service for you?

"Full-time" does not mean life-time. It means you probably won't have the time in a week to hold down an income-producing job, and that your volunteer task really requires pretty much your full attention, so some provision has to be made for your basic needs for living. The people who list positions in INVEST YOURSELF have faced that reality. Now what are the realities you might expect in full-time voluntary service?

The "realities" begin with yourself. If you can do a fair job of answering three questions about yourself, you'll be a long way down the road of deciding if full-time voluntary service is for you.

1. How do you live with ambiguity? A closely related question is, "Can you work well without close supervision?"

   People who seek full-time volunteers are often busy people with great program ideas and little access to money, and the volunteer offers hope of fulfilling some of those ideas. But the invited volunteer often finds that (1) job descriptions (if any) are pretty fluid and (2) that idea-producing program person doesn't intend (for reasons of time or personal inclination) to turn into a full-time manager/supervisor.

   How do you think you would react to that situation? Are you up-tight if your don't know exactly what you'll be doing next week — or maybe even tomorrow? Do you find yourself drifting into diversions for our time if someone's not telling you exactly how to use your time? Or do you try to swing with the situation, try to learn from that person who invited you and now seems to ignore you a lot, try to understand the goals of the program and come up with some of your own methods of reaching those goals?

Sometimes you have to contend with the opposite situation where the supervision is too tight, your options few. So "ambiguity" in broader terms means: How are you at getting on with people in all their variety and complexity? Can you work through disagreements or misunderstandings? Can you carry at least your share of a load and yet at the same time ask for help when you need it?

2. How do you feel about being broke? That doesn't mean that you'd be absolutely penniless all the time, and the assurance of bread and bed (the usual minimums for full-time voluntary service) is a lot better than millions of people have around this globe.

   What it does mean is that you'd be more dependent than usual and less free in your choices for things you need money to buy. And there's nothing like a penniless state to educate yourself about how many things or experiences require the spending of money!

   So if your life style requires a weekly trip to the record/tape shop, your own portable TV, regular midnight pizza, a weekly flick @ $3.50, and other sundry money-devouring necessities, you'd better think again about volunteering — or about your life style.

3. What kinds of things give you satisfaction? How is your spirit? Your job as volunteer may involve morale-boosting for people you work with who look up to your leadership as part of a staff — and you usally are part of a staff. But you won't always have scheduled boosts to your own morale, and some of the people you work with forget — if they knew — that you are a volunteer and not just a staff person "doing her/his job." And you can't count on some things that normally give people some degree of job-satisfaction: a regular paycheck, some kind of regular "advancement" (even a slight raise in pay) that says you're doing a good job.

   Do you find real satisfaction in seeing someone else boosted by your efforts? In sharing in cooperative tasks with other people? In sharing in cooperative tasks with other people? Most volunteers find that relationships with people in some manner become a prime source of satisfaction.

No sense in exhausting you with questions, but those are three big ones that will help you respond to the main one: is full-time volunteer service for you? We hope so — and the listing that follow are a brief introduction to the quest for understanding the "realities" of the projects themselves that must also be your interest and concern as you face the choices ahead.

ORIENTATION AND EVALUATION AT THE INTERACTION CENTER

ORIENTATION

In March 1979, LAOS and ASF will jointly sponsor an orientation for long-term volunteers from various agencies and countries. An invitation is extended to other volunteer agencies who do not already provide training for their volunteers to participate in this new cooperative venture. The experience of ASF and LAOS has been that orientation is of great value for a more conscious political and spiritual volunteer perspective and for a more active feedback to the agencies.

The goals of the orientation are: (1) to give information which is vital to the understanding of the tasks involved in the future work of the volunteer and the general perspective of voluntarism, (2) to provide a basic understanding of group processes and ways to deal with groups, (3) to gain a clear understanding of one's own values, the values of the community the volunteer will go to, and the fundamental goals and perspectives of the involved agencies, (4) to form a support group for volunteers.

The style of the orientation will be the same as action/reflections type workshops which include theory sessions, practical labor, talks with guest speakers, a non-violence workshop, and a value clarification session.

For the March orientation which will serve as the pilot training session we shall have ten openings for volunteers. In addition any participating agency desiring to do so may delegate a staff person to assist in the coordination of the training. The specific content of the orientation will be geared to the needs of the involved volunteers and will be discussed with the concerned agencies prior to the orientation.

The orientation will be held at the Interaction Center in Washington D.C. The facility can accommodate up to twenty-five persons and the city of Washington provides easy access to large numbers of social actions groups. The session will cover ten days of intensive learning and stimulation will cost $150.00 excluding travel costs.

EVALUATION

Also for the Fall of 1979 we plan a similar session for evaluation. This is to reflect upon the volunteer experience and its implication for the volunteer experience and its implication for the volunteers' future life perspective, to evaluate the projects he/she has worked in and to offer options of further involvement. We feel that this is a vital part of voluntarism if we want this experience to have any impact.

If you or your agency is interested in participating, expecially in the March orientation, please contact: LAOS (Greg Brown) or ASF (Rudolph Mueller-Schwefe) at the Interaction Center, 4920 Piney Branch Road, NW, Washington, D.C. 20011. Telephone (202) 723-8273.

NORTH AMERICAN WORKSHOP OPPORTUNITIES

WASHINGTON, D.C. Year-Round LAOS
3-7 day residential workshops on world hunger and urban poverty. Includes reflection, direct exposure, simulation games, media resources, and dialogue with local resource persons. Ideal location for dealing with these issues on local, national, and international levels. Meals and lodging provided in informal residential setting in northwest D.C. Group limit: 15, Minimum age: 16 yrs., Cost: $25-50 / person.

OPPORTUNITIES FOR VOLUNTEERS UNDER 18

These listings are organized according to the skills and interests of volunteers. Be sure to check the "multiple" listings — these are for agencies needing persons with one or more skills for multifaceted programs.

AGING (US/Canada)

BENSENVILLE, ILLINOIS Mid-June thru Aug. UCC
The Bensenville Home, a residential and wider community outreach program of older persons, needs two workers to help staff a rehabilitation program. Work will include reality orientation training and recreational activities with residents. Community work is dependent on needs of those being served. Cost: $18 program fee plus travel.

ROCHESTER, MINN. June 18-Aug. 24 UCC
The Samaritan Bethany Home provides nursing care and a residential home for senior citizens. The Home has need of a social service aide and an activities aide. Two workers are needed. Cost: $18 program fee plus travel.

NEWBURY, VERMONT June 1-Sept. 1 UCC
The Atkinson Residence for the Retired houses a "family" of twelve ambulatory and active senior citizens, ages 70-94. Need two volunteers, to enable and coordinate summer gardening activity, help with preparation of vegetables and fruit for freezing and canning, and to initiate summer recreation activities for the residents. Room and board provided. Cost: $18.00 program fee plus travel.

CHILDREN/YOUTH (U.S./Canada)

SAN FRANCISCO, CA Summer UPCUSA
Donaldina Cameron House in Chinatown wants 10 men, 10 women to be trained for 6 week day camp. Community living; housing provided but costs $175 for food. Scholarship available.

ERIE, PENNSYLVANIA June 25-Aug. 10 W.PA./W.VA.-LCA

6-12 persons 16 and older (male and female) are needed in an inner-city based religous/educational/recreational program called "Swing-In '79" for children K-grade 6. Skills in music, recreation, teaching, crafts will be helpful. Room and board provided. Cost is $6 for insurance. Application deadline is June 1.

COMMUNITY SERVICE (US/Canada)

LOS ANGELES, CA Summer UPCUSA

Ecumenical Summer Service wants 10 men, 10 women of ethnic and religious diversity, high school grades and up, to work in inner-city social service agencies and projects. Live as a community. Opportunities include: daycamps, advocacy for aging, welfare, health care and community organizing, hospital chaplaincy.

ST. LOUIS, MO Summer '79-12 wks. CNSI

Room and board provided for volunteers at large social service agency in low-income urban area. Programs in Youth, Child Care, Health, Aging, Citizen Participation, Rehabilitation (housing). Contact: Judi Roman by April 15, 1979.

COMMUNITY SERVICE (Outside N. America)

WEST INDIES Summer OCA

Summer work camp and community development projects with teenage West Indian counterparts: six weeks. Ages 16-18. Cost: $1150. Limited financial assistance. Application deadline: May 15, 1979.

HEALTH CARE (Outside N. America)

LATIN AMERICA Summer AA

An opportunity for hard working high school and college students to provide public health and community development services in Latin America. Teams set up rural clinics to administer paramedic programs, including inoculation, dental care, sight restoration and community development. Training and proficiency tests required. Cost is $1,635.

TEACHING (U.S./Canada)

SYRACUSE, NY NALA

475 literacy councils located throughout the United States and Canada. Project is continuous. NALA is the volunteer membership organization of Laubach Literacy International. 21,000 volunteers teach literacy skills to English and non-English speakers. Services under-educated youth and adults. Required 10-18 hour training workshop. Minimal charge for tutoring materials. NALA gives technical help to establish literacy councils.

MULTIPLE (U.S./Canada)

NEW HAMPSHIRE Summer NCC/DE&M

A conference center in a mountain/lake setting offers summer employment opportunities to youth. Minimum age: 16. A combined work/serviceship with moderate compensation, plus food, lodging and insurance. Staff activities offered.

SYRACUSE, NY **NALA**

475 literacy councils located throughout the United States and Canada. Project is continuous. NALA is the volunteer membership organization of Laubach Literacy International. 21,000 volunteers teach literacy skills to English and non-English speakers. Services under-educated youth and adults. Required 10-18 hour training workshop. Minimal charge for tutoring materials. NALA gives technical help to establish literacy councils.

● **WORK CAMPS/GROUP SERVICE** involve physical labor on a project of social significance . . . a project in which people from widely varied backgrounds can find common life and understanding in their unskilled labor. This is often supplemented by a program of study and discussion which points up the responsibility of the group to the community and the individual to the group. Work Campers usually volunteer their time, share in living expenses, and pay their own transportation cost.

WORK CAMPS/GROUP SERVICE (U.S./Canada)

DENVER, COLORADO **Summer** **EFC**

The Encampment for Citizenship, a unique program for special young men and women 16 to 19 years old, will hold its summer, 1979 program in Denver, Colorado. Program includes: two days a week of volunteer community work, small group discussions, films, trips, guest speakers, and a community government. Full and partial scholarships available.

ERIE, PENNSYLVANIA **June 25-Aug.10** **W.PA/W.VA.-LCA**

6-12 persons 16 and older (male and female) are needed in an inner-city based religious/educational/recreactional program called "Swing-In '79" for children K-grade 6. Skills in music, recreation, teaching, crafts will be helpful. Room and board provided. Cost is $6 for insurance. Application deadline is June 1.

AMERICAN INDIAN RESERVATIONS **Summer** **AJSS**

3 co-ed projects planned, 18 persons for each group, 16-18 years of age. Construction and related work. $450 plus travel. American Indian project usually included. Length: 7 weeks. 29th year. Some scholarships.

WORK CAMPS/GROUP SERVICE (Out. N. Ame.)

THESSALONIKI, GREECE **6 Wks. June-Aug.** **AMFS**

GREEK SUMMER. Work on needy projects and live with families in a Greek village. Co-ed group of 40 high school students also tours Classical Greece. $1500 cost includes rm. & board and program expenses and a $500 tax deductible contribution. Airfare extra.

WEST INDIES **Summer** **OCA**

Summer work camp and community development projects with teenage West Indian counterparts: six weeks. Ages 16-18. Cost: $1150. Limited financial assistance. Application deadline: May 15, 1979.

● INTERCULTURAL EXCHANGE PROGRAMS

provide opportunities for immersion in contrasting cultures and opportunities for growth and understanding and acceptance of different lifestyles. These programs are sometimes group experiences, but more frequently individual placements in family, church and school settings.

INTERCULTURAL EXCHANGE (Outside N. Ame.)

LATIN AMERICA **Summer** **ODSE**

U.S. high school students visit Latin American country during their summer vacation, where they attend school and live with families. U.S. students also act as host to a foreign student for approximately three months during the fall and winter. Cost: $675-995 including air transportation, orientation, excursions, and insurance.

INTERNATIONAL **1 Year** **ICYE**

125 persons (ages 16-24) interested in community service are placed in 20 countries in Europe, Latin America, Asia. They live with families; attend conferences on political, social, economic issues, as well as engage in a wide variety of community services. Travel, housing, food, pocket money are provided. One year program only. Cost: $2400.

ADDITIONAL AGENCY RESOURCES

NATIONAL COMMISSION ON RESOURCES FOR YOUTH NCRY

The National Commission on Resources for Youth disseminates informatiton on innovative programs which provide youth with opportunities to assume rewarding and responsible roles in society. The Commission publishes films and "how-to" materials, including a quarterly newsletter which describes outstanding programs.

OPPORTUNITIES FOR ADULT VOLUNTARY SERVICE (18 AND OVER)

These listings are organized according to the skills needed by bolunteers. Further divisions have been made in each category as to whether the placement is within Canada and the United States or outside North America. Be sure to check the "multiple listings"—these are for agencies needing persons with one or more skills for multifaceted programs.

AGING (U.S./Canada)

LOS ANGELES, CA Summer UPCUSA

Ecumenical Summer Service—10 men, 10 women of ethnic and religious diversity, high school grads and up, to work in inner-city social service agencies and projects. Live as a community. opportunities include: daycamp, advocacy for aging, welfare, health care and community organizing, hospital chaplaincy.

BENSENVILLE, IL Mid-June thru Aug. UCC

The Bensenville Home, a residential and wider community outreach program for older persons, needs two workers to help staff a rehabilitation program. Work wiwll include reality orientation training and recreational activities with residents. Community work is dependent on needs of those being served. Cost: $18 program fee plus travel.

INDIANAPOLIS, IN Longer-Term UPCUSA

Near Eastside Multi-Service Center, Inc.—Men/women 18 up to serve as activity workers, day care teacher, case worker for children—senior citizens in low-income neighborhood.

DETROIT, MICHIGAN Begin June or Sept. UCC

The Evangelical Home—a residence for older persons—needs one volunteer to work with the Activities Director in providing activities for 250 persons. Cost: travel to Detroit—Room and board with small monthly stipend provided.

ROCHESTER, MINN June 4-Aug. 24 UCC

The Samaritan Bethany Home provides nursing care and a residential for senior citizens. The Home has need of a social service aide and an activities aide. Two workers are needed. Cost: $18 program fee plus travel.

ST. LOUIS, MISSOURI Summer '79, 12 wks. CNSI

Room and board provided for up to 10 students for summer program working withelderly in urban neighborhood. Longer programs available also. Large social service agency based on philosophy of neighborhood self-determination. Apply by April 15, 1979. Contact: Judi Roman.

UPPER SANDUSKY, OH June 1-Aug. 31 UCC

Fairhaven Home needs two volunteers to work under the Activities Director providng assistance in occupational therapy, reality orientation, special activities, recreation crafts and recording in social services. Cost: $18 plus travel.

UNITED STATES **Longer-Term** **JVC (East)**
Men and women; over 21 or college graduate; one year term—August to August; Apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple life style, Christian service.

NEWBURY, VERMONT **June 1-Sept. 1** **UCC**
The Atkinson Residence for the Retired houses a "family" of twelve ambulatory and active senior citizens, ages 70-94. Need two volunteers, to enable and coordinate summer gardening activity, help with preparation of vegetables and fruit for freezing and canning, and to initiate summer recreation activities for the residents. Room and board provided. Cost: $18 program fee plus travel.

WEST BEND, WIS **June 15-Aug. 15** **UCC**
Cedar Lake Home is an extended care facility caring for 436 residents ranging from total independence to total nursing care. Volunteers will be working with the General Activity Department in activities ranging from craft work to recreational activities away from the buildings. Two workers, female only. 18 years and over. Cost: $18 program fee plus travel.

AGRICULTURE (U.S./Canada)

CORDES JCT., ARIZONA **Short-Term** **CF**
Arcosanti Workshops—1979—Jan 15, Feb 19, Mar 26, Apr 30, June 4, June 25, July 25, July 30, Sept 3, Oct 1. 52 staff members, students—only requirement is 18 yrs. and over. Aliens prmitted. Cost: $440 for each 5 wk., learn by building workshop. Covers food, insurance, tuition, sleeping pad, hard hat. Purpose: to build an ecologically-sound, energy-efficient solar powered future city for 5000.

FARMINGTON, MO **Longer-Term** **UPCUSA**
Presbyterian Home for Children—Maintenance, farm coordinator, special education tutor and/or classroom teacher, recreation worker for facility including Christian nurture for children 10-17. Work as team with present staff. Room for innovation.

UNITED STATES **2 Years** **WIP**
World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

AGRICULTURE (Outside N. Amer.)

LEICESTERSHIRE, ENGLAND — Intermittant Vacancies 8 Wks.+ — HH

Christian Community living with 15-30 international people. 2 wk + Room & board. Committed Christians. No paid travel expenses. Work permit not required, previous experience disired. Lutheran Conference Centre. Caters 100. House-parties, Summer Camps, Conferences. International flavor.

INTERNATIONAL — Longer-Term — IVS

Skilled and experienced agricultural technicians continually needed in developing countries on two-year volunteer assignments with IVS. Work is on rural development projects aimed at benefitting low-income groups. Professional training and practical work experience essential; previous overseas experience preferable. No nationality or age restriction. Expenses paid include minimum stipend of $80 a month, transportation, insurance, and living allowance; housing provided.

INTERNATIONAL — 2 Years — WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

ARTS AND DRAMA (U.S./Canada)

DEER LODGE, TENN — Summer — UPCUSA

Morgan-Scott Project—3 men/women as field workers in recreation and creative ministries in Appalachia communities. Experience in crafts, youth work, and community organizing helpful.

BUSINESS/MANAGEMENT/OFFICE SKILLS (U.S./Canada)

NORTH POLE, ALASKA — Longer-Term — UPCUSA

New Hope Methodist/Presbyterian Church—Church worker needed for secretarial work and to serve as choir director for this new church development congregation. Work at home and at the worship site (Grange Hall). Part-time secular employment will be found to fund support.

CORDES JCT., ARIZONA — Short-Term — CF

Arcosanti Workshops—1979—Jan 15, Feb 19, Mar 26, Apr 30, June 1, June 25, July 25, July 30, Sept 3, Oct 1. 52 staff members, students—only requirement is 18 yrs. and over. Aliens prmitted. Cost: $440 for each 5 wk., learn by building workshop. Covers food, insurance, tuition, sleeping pad, hard hat. Purpose: to build an ecologically-sound, energy-efficient solar powered future city for 5000.

GANADO, ARIZONA — Longer-Term — UPCUSA

Classroom instructors, bookkeeper/accountant, dorm director resident, secretary, grounds keeper at UP-related college. Interpersonal skills important. Navajo community.

BERKELEY, CA — Summer — UPCUSA

UNITAS—Two work-study students to do maintenance work, painting, and office work as they engage in a learning environment where Third World pluralism, peace, racism, and sexism will be discussed as they relate to Higher Education.

SAN FRANCISCO, CA — Longer-Term — UPCUSA

Donaldina Cameron House—1 or 2 men to be full-time live-in volunteers. Some maintenance and office work. Housing and a food stipend.

ST. LOUIS, MO — Summer '79-12 Wks. — CNSI

Room and board provided for up to 12 for summer volunteer project in low-income urban neighborhood. Social Service agency offering variety of services can offer admin. experiences. Contact: Judi Roman by April 15, 1979.

UNITED STATES — Longer-Term — NISBCO

NISBCO is an interreligious peace service organization. Full time staff of five—present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required, with graduate work in counseling and communications desired for some positions.

BUSINESS/MANAGEMENT/OFFICE SKILLS (Outside N. Amer.)

INTERNATIONAL — Longer-Term — IVS

Skilled and experienced business and cooperative specialists needed in developing countries on two-year volunteer assignments with IVS. Work is on rural development projects aimed at benefitting low-income groups. Professional training and practical work experience essential; previous overseas experience preferable. No nationality or age restriction. Expenses paid include minimum stipend of $80 a month, transportation, insurance, and living allowance; housing provided.

NEW GUINEA — Anytime — LWM/VS

Secretarial/office management/accountancy skills. To assist in work and training in church-related operations. Christian commitment. Housing provided, living cost provision varies. Transportation volunteer responsiblity.

CHILDREN/YOUTH (U.S./Canada)

BATTLES WHARF, ALA. May 15-June 24 ECMCC

La Casa de Amigos, 6-week day care center for about 100 Mexican-American pre-school children, needs 30 men and women 18 years and over with one year of college. Spanish helpful but not required. Applications by March 15; notification by May 1. Room, board. Cost: travel.

HAINES, ALASKA Summer UPCUSA

Rainbow Glacier Camp—Older, experienced person for Camp Director. 2 men, 1 woman as camp counselors and vacation church school staff, older couple to share manager/cook responsiblities. College students preferred for counselors.

HARDING LAKE, ALASK. Summer UPCUSA

Bingle Memorial Youth Camp—Counselors and R.N. for camp program; room and board. Camp manager for maintenance, supervisor of physical plant and small staff, no direct involvement in program; should be interested in youth and camping. Couple could be used if one has Water Safety certification. Paid a stipend.

JUNEAU, ALASKA Summer UPCUSA

Southwest Alaska vacation Church School and Community Service—10 men, 10 women college upperclass/grads to organize and teach vacation church school as entre into isolated communities on the inland waterway. Must be self-motivated to find appropriate ways to serve in each village. Work in teams of 2-4. Ministry of M/V Anna Jackman.

LOS ANGELES, CA June 25-Aug. 22 UCC

Immanual UCC in South Los Angeles needs 4 volunteers to work with children in a wide range of activities: free breakfast program, crafts, music, gymnastics, and concentration (a program dealing with life needs and how best to meet those needs). A field trip program every Friday. Age 19 and over. Cost: $18 program fee plus travel.

SAN FRANCISCO, CA Summer UPCUSA

Donaldina Cameron House—10 men, 10 women to be trained for 6-week day camp. Community living in Chinatown. Cost: $175 for food. Scholarship available.

SAN FRANCISCO, CA Summer UPCUSA

Richmond Daycamp—3 men, 3 women to work with children and or youth groups in a weekly daycamp setting. Skills in cookouts, crafts, nature study, games, sports, music and hiking are useful. participants must cover the cost of their food.

YUCAIPA, CA June 29-Sept. 3 UCC

Pilgrim Pines is the camp/conference center for the United Church of Christ in Southern California. They need 2-4 workers to assist in their summer camping program; which has a heavy emphasis on mentally retarded children and a cross-cultural program in ministry to inner city youth. Volunteers must be 21 or older. Cost: $18 program fee plus travel.

DENVER, COLORADO Summer UPCUSA

People's United Presbyterian Church—wants 4 college age volunteers in community ministry in Denver's Black community. Plans include 2-week vacation church school, 2-week day camp, 4-week summer club. Scholarship.

GLENWOOD, FLORIDA — Summer — UPCUSA

Duvall Home for Retarded Children—5 men, 3 women needed for the following positions: recreation leisure time assistant, arts and crafts assistant, unskilled farm laborer, physical therapist and assistant, special education teacher, teacher aide, sign language specialist, swimming assistant.

ILLINOIS, KANSAS, OKLAHOMA — Year-Round — GCMC

Day care positions are open for one-year volunteers in deteriorating areas of suburban Chicago; Hutchinson, KS; Oklahoma City, OK; and Liberal, KS. Both men and women are needed to staff these centers designed primarily for lower income people. Expenses plus $30 per month allowance provided.

ASSUMPTION, IL — Longer-Term — UPCUSA

Kemmerer Village—Day care worker to handle cottage scheduling and supervision, counseling, listening in rural children's facility.

CHICAGO, IL — Summer — UPCUSA

Bethany Presbyterian Church—Two community workers for children's summer program. Use own creativity to develop vacation church shcool, recreation and crafts program, trips, teen groups. Workers create own schedule. Spanish helpful but not necessary.

HOYLETON, IL — June 1-Aug. 18 — UCC

Two workers needed to lead various types of group activities and recreation in a small children's home which serves approximately 35 children and youth. Nature study and outdoor camping will be part of the program. Age 21 and over. Cost: $18 program fee plus travel.

OREGON, IL — Longer-Term — UPCUSA

Stronghold Ministries—Resident volunteers for operations and program of a renewal and study center for junior and junior high wilderness camping, senior high retreats, adult education, family events. 1 man, 1 woman, (couple is acceptable). Stipend.

FORT WAYNE, IN — Juen 8-Aug. 31 — UCC

Crossroads is a treatment center for teenagers. Volunteer workers are usually involved in recreation planning and leadership, some substitute houseparenting during special meetings. Interest in all sports and a variety of recreational activities like camping, canoeing and cycling is useful. Three workers needed, age 21 and over. Cost: $18 program fee plus travel.

DUBUQUE, IOWA — Summer — UPCUSA

Hillcrest Family Service—needs 4 women for work with adolescents, serving as group leaders in counseling/activities program. Opportunity for practical experience in helping profession with alienated and disturbed adolescent youth.

KANSAS CITY, KS — June 3-July 27 — CLCC

6 volunteers—female and male—age 20+, interest in developing & supervising a

neighborhood recreation program for children & youth. ability to relate to ch.-youth-adults. Application and screening process Jan.-May. Agency pays $25 wk. & housing.

KANSAS CITY, KS Summer UPCUSA

Cross-Lines Cooperative Council, Inc.—6 men/women, age 20 up, to supervise recreation sites, playground areas, lead games, and develop other activities with local leadership each summer.

BUCKHORN, KENTUCKY Long-Term/Summer UPCUSA

Buckhorn Children's Center—Long-Term: 2-3 persons to assist in recreation program and tutor. Summer: 6 persons to serve as recreation aides, social workers, learning disabilities teacher, tutor for work with residential dependent, culturally deprived children.

DETROIT, MICHIGAN Begin June or Sept. UCC

The Evangelical Child Care Center has need of 2 or 3 workers to be live-in house parents for upper teenage youth. Volunteers would live in the cottage and help youth have as normal activities as possible in a group home setting. Cost: travel to Detroit. Room and board with small monthly stipend provided.

FARMINGTON, MO Longer-Term UPCUSA

Presbyterian Home for Children—Maintenance farm coordinator, special education tutor and/or classroom teacher, recreation worker facility including Christian nurture for children 10-17. Work as a team with present staff. Room for inovation.

ALBUQUERQUE, NM Summer UPCUSA

Martineztown House of Neighborly Service—needs 1 man/woman as recreation leader/volunteer coordinator in a 6-week day camp program and coordinating work of 6-10 volunteers. Prior experience in youth work and Spanish/English fluency helpful.

CHIMAYO, NEW MEXICO Summer UPCUSA

Johy Hyson Education Center—needs 2 college students fluent in Spanish and English as directors of summer storybus program and recreation program for children grades 1-12.

ELON COLLEGE, NC June 1-Aug. 31 UCC

The programs of the Elon Home for Children provide group care for 60 boys and girls in a residential setting and a day care program for up to 75 children from the community. Volunteers would be used as recreational aides and may be used in the day care program, if needed. Two persons are needed, age 20 and over. Cost: $18 program fee plus travel.

ROCKY MOUNT, NC June 15-Aug. 15 UCC

Franklin Center, a center for Black activities in Eastern North Carolina, is seeking six volunteers to work in their summer program as counselors/camp directors. Work with 200 to 250 children per day. Age 21 and older. Room and board provided. Cost: $18 program fee plus travel.

PORTLAND, OREGON June 10-July 27 UCC

People Are Beautiful 1979 is a ministry directed toward children to help them build relationships and experience growth activities in art, crafts, recreation, drama, music, and the out-of-doors. This is a cooperative ministry of three churches and a community action group in South Portland. Needed: 5 volunteers, early to mid 20's. Cost: $18 program fee plus travel.

ERIE,PENNSYLVANIA June 25-Aug.10 W.PA/W.VA.-LCA

6 persons 18 and older (male and female) are needed in an inner-city based religious/educational/recreational program called "Swing-In '79" for children K-grade 6. Skills in music, recreation, teaching, crafts will be helpful. Room and board provided. Cost is $6 for insurance. Application deadline is June 1.

PHILADELPHIA, PENN June 23-Aug. 23 UCC

Old First Reformed UCC, an historic church in Center Philadelphia, will conduct day camps and recreational programs on city lot near the church. Up to six college people needed to provide leadership. Church used for both housing of staff and program for children. Cost: $18 program fee plus travel.

WOMELSDORF, PENN June 14-Sept. 3 UCC

Help with summer recreational and activity program for 140 boys and girls in care at Bethany Children's Home. Supervise group games—sport activities, bike trips, overnight hikes, camp trips, etc. Cost: $18 program fee plus travel.

SOUTH DAKOTA Mid-June to Mid-Aug. SIYMCA

6 persons with skills suitable for primitive camping needed to work at the Leslie Marrowbone Memorial YMCA Camp, a camp sponsored by the Sioux Indian YMCA on the reservation in South Dakota. Need counselors, kitchen supervisor, staff coordinator, nurse, waterfront director to work in cooperation with local Sioux leaders. Cost: travel, personal expenses. Maintenance: provided. Application materials available after Jan. 1, 1979.

DEER LODGE, TENN Summer UPCUSA

Morgan-Scott Project—3 men/women as field workers in recreation and creative ministries in Appalachia communities. Experience in crafts, youth work and community organizing helpful.

MT. PLEASANT, UTAH Longer-Term UPCUSA

6 men or women for general maintenance, assistant recreation leader, and assistant dorm parent for UPC secondary school.

UNITED STATES Longer-Term JVC (East)

Men and women; over 21 or college graduate; one year term—August to August; Apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

CHILDREN/YOUTH (Outside N. Amer.)

LEICESTERSHIRE, ENGLAND — Intermittent Vacancies 8 wks+ — HH

Christian Community living with 15-30 International people. 2 wk + Room & board. CommittedChristians. No paid travel expenses. Work permit not required. Summer camp counselors. Lutheran Conference Centre. Caters 100. Houseparties, Summer Camps. Conferences. International flavor.

LATIN AMERICA — July/August — AFSC

Co-sponsors community service units with Mexican and Central American organization. Seven weeks in rural villages. Construction, building repairs, youth work, gardening, etc. Ages 18-26. Spanish essential. Cost: $350, plus transportation.

INTERNATIONAL — Summer — ICCP/A

Overseas Camp Counseling positions are available for 4-8 weeks in a number of YMCA and other organizational camps throughout Europe, Asia, Colombia, and Ghana. Participants must be North American citizens, 18-25 years of age, who have completed one year of college and have experience working with children. Participants pay a $55 application fee and are responsible for all overseas transportation. Deadline: March 1. Send stamped self-addressed office sized envelope to ICCP/Abroad for information.

COMMUNITY SERVICE (U.S./Canada)

N.W. STATES, ALASKA — 1 year (Aug-Aug) — JVC(NW)

Men/Women, 21 or older. US Citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Day care, parish visiting, etc. Room & board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April-August each year.

BAY AREA, CA — Year-Round — WCSC

All-volunteer association assisting in distribution of services to low-income communities of Bay Area. Volunteers needed to aid in providing emergency assistance to individuals/families, free health care, advocacy, job referral, emergency food and clothing, dental care. Room, board, necessary expenses provided.

LOS ANGELES, CA — Summer — UPCUSA

Ecumenical Summer Service—10 men, 10 women of ethnic and religious diversity, high school grads and up, to work in inner-city social service agencies and projects. Live as a community. Opportunities include: daycamp, advocacy for aging, welfare, health care and community organizing, hospital chaplaincy.

SACRAMENTO, CA — Year-Round — KFWCLC

Center servicing low-income area of Sacramento County, CA through provision of emergency food and clothing, advocacy, dental care, information and referral, job referral, casework. Volunteers are needed to aid in all aspects of community service provision. Room, board, necessary expenses provided.

SANTA CRUZ, CA — 1 to 6 months — RCNV

Internship with Resource Center for Nonviolence. Work with staff in collective situation. Study possible. Local organizing possible. Send personal statement of interests. Cost: $80 to $150 room and board, plus transportation. Time by arrangement.

INDIANAPOLIS, IN — Longer-Term — UPCUSA

Near Eastside Multi-Service Center, Inc.—Men/women 18 and up to serve as activity workers, day care teachers, case worker for children—senior citizens in low-income neighborhood.

KANSAS CITY, KS — Ongoing Program — CLCC

Emergency Assistance—direct service & Advocacy Program—systems change to meet human needs. Prefer college grads with people-relating skills and empowerment concerns. Negotiable subsistence stipends from agency.

KANSAS CITY, KS — June 3-Aug. 3 — UCC

Cross-Lines Council needs 5 men and/or women to supervise recreation sites and playground areas, lead games, develop other activities such as swim trips, fishing, sport and cultural outings. Volunteer will work cooperatively with neighborhood leadership. Cost: $18 and travel.

KANSAS CITY, KS — Sum./Year-Round — UPCUSA

Cross-lines Cooperative Council, Inc.—6 men/women, age 20 up, to supervise recreation sites, playground areas, lead games, and develop other activities with local leadership each summer. Year-round needs for man/woman as emergency assistance/housing advocate in independent role providing direct assistance to persons with housing needs and government agencies.

NOR. MAINE/CANADIAN MARITIME PROVINCES — Summer — QLF

40 volunteers, male & female, aged 17 and up. Application deadline, March 1st. volunteers in natural sciences and/or environmental education, canoeing, swimming, arts & crafts, drama or music. Room and board, transportation costs assumed by volunteer (approximately $600.00). Fee reduced or waived for skilled candidates. Salaries for leadership positions.

NEWARK, NJ — Longer-Term — UPCUSA

Protestant Community Centers, Inc.—4 men or women to provide supplemental staff services: Christian Education Coordinator of Volunteer Services, Day Care Coordinator, Program Assistant. An urban ministry. Stipend.

BROOKLYN, NY — Longer-Term — UPCUSA

Christian Help in Park Slope (C.H.I.P.S.)—needs persons to help respond to individual needs of food, clothing, medical services, legal counseling, in counseling setting with inner-city people.

RIVERHEAD, NY — Year-Round — RCSC

Community service center aiding impoverished agricultural community through provision of free health care, legal and welfare advice, distribution of food and clothing to migrant labor camps, staffing 24 hour "hot line." Volunteers also participate individual counseling and case work. Room, board, expenses provided.

TROY, NEW YORK Longer-Term UPCUSA

United Campus Ministry—1-3 women/men to serve as fund raisers, proposal writers, youth workers, welfare advocates, and community dispute settlers in ecumenical social action agency.

DAYTON, OHIO June 1-Aug. 15 UCC

St. Luke's UCC, an inner-city church, seeking one worker to assist in their weekly recreation program for children and youth 4-12 and their Vacation Bible School/Day Camp. Cost: $18 program fee plus travel.

OKLAHOMA CITY, OK 2 Years GCMC

Two year volunteers needed to work with a group of 6-10 people in day care centers, housing rehabilitation programs, community recreation programs, advocacy, and other social justice efforts. Room, board, travel, and $30 per month allowance are provided.

JACKSON COUNTY, ORE Year-Round JCFC

Committee of concerned volunteers aiding low-income persons and their families to stay warm for the winter. Volunteers are needed to organize wood cutting expeditions through summer and fall months, weatherization of housing, wood distribution, repair of stoves and heaters. Knowledge and experience in construction and insulation helpful, but not necessary. Room, board, necessary expenses provided.

PORTLAND, OREGON 2 Years GCMC

Two year volunteers are needed to join with an existing group of six people already performing community services in home repair, organizing, and other church related endeavors. Room, board, travel and $30 per month allowance provided.

PORTLAND, OREGON Longer-Term UPCUSA

FISH Emergency Service, Inc.—3 men/women—Service Coordinator, Harvest for the Hungry Coordinator, Harvest and Outreach Worker. FISH provides emergency assistance to economically deprived and information dissemination on corrective alternatives. Stipend.

ERIE, PENNSYLVANIA June 25-Aug.10 W.PA/W.VA.-LCA

6 persons 18 and older (male and female) are needed in an inner-city based religious/education/recreational program called "Swing-In '79" for children K-grade 6. Skills in music, recreation, teaching, crafts will be helpful. Room and board provided. Cost is $6 for insurance. Application deadline is June 1.

ERIE, PENNSYLVANIA
Year-Round 1-2 Years W.PA/W.VA. -LCA

One or two persons (male and female) needed to be part of the staff of Holy Trinity Community Center which is located in a low-income mixed racial area of Erie. Work would include leading and coordinating recreational, educational and religious programs for youth; developing new programs for youth and adults; relating individually to persons in the neighborhood. Maintenance and local transportation provided.

DEER LODGE, TENN June 1-Aug. 1 UCC

The Morgan-Scott Project is a multifacet agency helping people develop their skills and community. They need one volunteer to work in a new housing program and one volunteer to work in the Home-School Program. Volunteer must provide own car. College age or older. Cost: $18 program fee plus travel.

TEXAS Year-Round VESS

Coordinate social service programs in Catholic parishes and agencies. Work with youth, family counseling, prisons, undocumented immigration, etc. Bachelor's degree and experience preferred. Spanish speaking ability helpful. $80/month, furnished housing, board, transportation, and insurance.

SEATTLE, WASH 2 Years GCMC

Two year volunteers with interest in mental health in a community-based mental health program for low-income people. Persons with strong aptitude are given priority over academic types. Other positions exist for community service workers. Room, board, and $30 per month allowance provided.

WASHINGTON, D.C. CCNV

The Community for Creative Non-Violence is located in the 'riot-corridor' of Washington, DC, 14th St. in the NW quadrant of the city and will be there for the forseeable future (CCNV). There have been as few as two and as many as forty members at any one time, coming from all classes, sexes, and age groups. There are no special qualifications other than a committment to service and a willingness to labor freely; all peoples are welcome. There is no deadline for applying; we always need new members. The Community owns no property, pays no federal taxes, and offers no salaries; members share funds from the common purse or may make other arrangements for their upkeep. Recognizing a need to blend within the individual and the community the elements of spirituality, service, resistance, constructive program, and the personal intergration of justice, CCNV has sought to live non-violence in a vital creative way since its beginning in 1970-seeking to confront violence and heal the victims of that violence.

UNITED STATES Longer-Term JVC(East)

Men and women; over 21 or college graduate; one year term—August to August; Apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES 2 Years WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts ealy September. "Rolling" admission until class filled. Early application recommended.

CANADA, PUERTO RICO AND U.S. Year-Round MBM

MBM Voluntary Service places 200 workers in one or two year terms as partners with a local Mennonite church mission. Persons skilled in carpentry, health care, social work, teaching are needed. Minimum age 18. Transportation, room, board, allowance provided.

COMMUNITY SERVICE (Outside N. Amer.)

AFRICA 2 Years-Minimum JVC

Opportunities for hard working, gritty people with sensitivity for other cultures and a good sense of humor. Teacher needed. Transportation and salary provided. Minimum age: 21. Referral Service Only.

GREAT BRITIAN Year-Round NC

Cyrenians need full-time residential volunteers for community houses for single homeless people in U.K. Men and women needed. Apply anytime for 6-12 months service. Must be over 18 and able to take responsiblity and speak English. Volunteers receive board & lodging, plus pocket money. Travel costs to U.K. not paid.

LATIN AMERICA July/Aug. AFSC

Co-sponsors community service units with Mexican and Central American organizations. Seven weeks in rural villages. Construction, building repairs, youth work, gardening, etc. Ages 18-26. Spanish essential. Cost: $350, plus transportation.

INTERNATIONAL 2 Years YMCA

YMCA WORLD SERVICE WORKERS. Opportunity for recent college graduates with YMCA background to serve as program assistants for YMCAs overseas. Applications received until December 31. Monthly stipend, room, board and travel covered.

INTERNATIONAL YMCA: W/A

20-35 young men and women (over 18), good health, ability to adjust to new cultures, at least one year of college required. Deadline: April 1. Participants pay travel and living expenses (from $1300 to $2000). Counsel given on how to raise part of your fee. Volunteer service—physical work camps (constructing schools, etc.), teaching English, recreation or camp leaders. Second language helpful (especially for South America). Small teams of 4-8 persons work with YMCAs in host countries. 1979 countries in Africa are Egypt, Kenya, Liberia, Gambia, Senegal; in Asia—Japan, Hong Kong, Taiwan, Phillipines, Israel, and the People's Republic of China (cross cultural visit); in Latin America—Panama, Colombia, Ecuador, Peru, Brazil, Aruba; in Europe—Portugal, Greece, France, and Switzerland. College credit usually allowed. Excellent multi-national leadership development program.

INTERNATIONAL 2 years WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $1000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

COUNSELING (U.S./Canada)

NORTHWEST STATES,
ALASKA 1 Year (Aug-Aug) JVC(NW)

Men/Women, 21 or older. US Citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Youth counselors, dorm perfect. Room & board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April-August each year.

UNITED STATES Longer-Terms JVC (East)

Men and women; over 21 or college graduate; one year term—August to August; Apply after Jan. lst; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES NISBCO

NISBCO is an interreligious peace service organization. Full time staff of five—present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required, with graduate work in counseling and communications desired for some positions.

COUNSELING (Outside N. Amer.)

INTERNATIONAL Summer ICCP/A

Overseas Camp Couseling positions are available for 4-8 weeks in a number of YMCA and other organizational camps throughout Europe, Asia, Colombia, and Ghana. Participants must be North American citizens, 18-25 years of age, who have completed one year of college and have experience working with children. Participants pay a $55 application fee and are responsible for all overseas transportation. Deadline: March 1. Send stamped self-addressed office size envelope to ICCP/Abroad for information.

GEN'L MAINT./HOUSEKEEPING (U.S./Canada)

NW STATES, ALASKA 1 Year (Aug-Aug) JVC(NW)

Men/Women, 21 or older. US Citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivtion. Maintenance or cook in Alaska bush. Room & board, small stipend (max. $50/mo.), health insurance and travel are provided. Apply April-August each year.

CORDES JCT., ARIZONA **Short-Term** **CF**

Arcosanti Workshops—1979-Jan 15, Feb 19, Mar 26, Apr 30, June 4, June 25, July 30, Sept 3, Oct 1. 52 staff members, students—only requirement is 18 yrs. and over. Aliens permitted. Cost-$440 for each 5 wk., learn by building workshop. Covers food, insurance, tuition, sleeping pad, hard hat. Purpose: to build an ecologically-sound, energy-efficient, solar powered future city for 5000.

TEMPE, ARIZONA **Longer-Term** **UPCUSA**

Cook Christian Training School—2 men/women (couple ok) for maintenance and cook/housekeeper in conference center serving Native Americans.

BERKELEY, CA **Summer** **UPCUSA**

UNITAS—Two work-study students to do maintenance work, painting, and office work as they engage in a learning environment where Third World pluralism, peace, racism, and sexism will be discussed as they relate to Higher Education.

SAN FRANCISCO, CA **Longer Term** **UPCUSA**

DONALDINA CAMERON HOUSE—1 or 2 men to be full-time live-in volunteers. Some office and maintenance work. Housing and a stipend.

FARMINGTON, MO **Longer-Term** **UPCUSA**

Presbyterian Home for Children—Maintenance, farm coordinator, special education tutor and/or classroom teacher, recreation worker for facility including Christian nurture for children 10-17. Work as team with present staff. Room for innovation.

MT. PLEASANT, UTAH **Longer-Term** **UPCUSA**

6 men or women for general maintenance, assistant recreation leader, and assistant dorm parent for UPC secondary school!

GEN'L MAINT./HOUSEKEEPING (Out. N. Amer.)

LEICESTERSHIRE, ENGLAND **Intermittent Vacancies 8 wks+** **HH**

Christian Community living with 15-30 international people. 2 wk + Room and board. Committed Christians. No paid travel expenses. Work permit not required. Lutheran Conference Centre. Caters 100. Houseparties, Summer camps, Conferences. International flavor. Needs include: 1) person with ability to be general handyman; 2) servers, housekeepers-no previous experience necessary, 3) groundskeeper, kitchen staff—previous experience desired.

LATIN AMERICA **July/August** **AFSC**

Co-sponsors community service units with Mexican and Central American organizations. Seven weeks in rural villages. Construction, building repairs youth work, gardening, etc. Ages 18-26. Spanish essential. Cost: $350, plus transportation.

HEALTH CARE (U.S./Canada)

HARDING LAKE, ALSK. Summer UPCUSA

Bingle Memorial Youth Camp—Request R.N. for youth camp. Should be interested in youth camping. Room and board provided.

NW STATES, ALASKA 1 Year (Aug-Aug) JVC(NW)

Men/Women, 21 or older. U.S. Citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Nurses, health care professions. Room & board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April-August each year.

CALIFORNIA—REDDING, SACRAMENTO, BAY AREA
NEW YORK Anytime CCMP

M.D.'s, nurses, techs, pharmacists, physical therapists, as well as non-medical volunteers needed to help expand health centers providing free comprehensive helath care to California's low-paid service workers and New York's farmworkers in conjunction with organizing drives. Free room, board, and expenses provided.

SANTA CRUZ, CA
SUFFOLK COUNTY, N.Y. Year-Round OHP

Persons needed to assist an occupational health project working with farmworkers and domestic workers in connection with organizing drives. Volunteer activity includes Workman's Comp. advocacy, research in occupational hazards, medical referrals. Free room, board, and expenses.

KANSAS CITY, KS On going Program CLCC

Clinicare—family health services & home care services. Need medically trained personnel who are concerned about community health issues & preventative care services & expanded usage of allied health. Stipends/salaries negotiable.

Appalachia Regional Hospitals—10 men, 10 women for a variety of medical positions in Appalachian health and facilities. Salary.

LEXINGTON, KY Longer-Term UPCUSA

Appalachia Regional Hospitals—10 men, 10 women for a variety of medical positions in Appalachian health and facilities. Salary.

PRESTONSBURG, KENTUCKY Longer-Term UPCUSA

1 faculty position for Associate Degree Nursing Program, located in a small town in the eastern Kentucky highlands. Teach in classroom and clinical facility. A salary and travel are negotiable. Masters degree needed.

ST. LOUIS, MO Sum. 1979, 12 Wks. CNSI

Room and board provided for up to 10 students for summer program working in Health Clinic of large social service agency. Located in urban area—low-income. Agency consists of 5 settlement houses, clinic, housing project. Contact: Judi Roman by April 15th, 1979.

TAOS, NEW MEXICO Longer-Term UPCUSA
Holy Cross Hospital—Special projects coordinator, R.N., L.P.N., aides for hospital work. 2 men, 2 women. Spanish helpful but not required.

UNITED STATES Longer-Term JVC(East)
Men and women; over 21 or college graduate; one year term—August to August; Apply after Jan. lst; Urban and Appalachian. Room, boards, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES 2 Years WIP
World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Student may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

HEALTH CARE (Outside N. America)

AFRICA Anytime/1 Year LWM/VS
Registered Nurses/Nurse Tutors/Midwives. Hospitals and clinics. 1 year or more. Housing provided; volunteer responsible for transportation (1800+) and living costs (100+/mo.). Christian commitment. Assist ongoing medical projects.

AFRICA, ASIA, & LATIN AMERICA 2 Years MEDICO
MEDICO, a service of CARE, needs physicians, dentists, registered nurses, medical and radiologic technologists; also community health planners and educators for two-year assignments for "teach and treat" programs in Africa, Asia and Latin America. Applicants should be registered/licensed in the United States, Canada, or country of origin. Agency pays salary, travel, quarters, allowance, and other benefits. Visiting volunteer specialists accepted for month or more, pay own travel and expenses.

LATIN AMERICA Summer AA
An opportunity for hard working high school and college students to provide public health and community development services in Latin America. Teams set up rural clinics to administer paramedic programs, including inoculations, dental care, sight restoration and community development. Training and proficiency tests required. Cost is $1,635.

INTERNATIONAL DRF-AI
Direct Relief Foundation - Aesculapian International. Direct Relief Doctor arranges assignments in the U.S. (Indian reservations, etc.), the Caribbean, Central and South America, the Far East, South Asia and Africa, for general

practitioners, specialists in all branches of medicine, dentists, and medical or dental students. Long- and short-term assignments are available. Applicants and hospitals or health centers are screened to make sure the volunteer's term will be fruitful. Direct Action International serves nurses, technicians, and other paramedical personnel willing to offer some of their time and skills in these same areas. Purpose of DRF assignments is to assist people of less developed areas to help themselves by providing them with services and training for better health care.

INTERNATIONAL IVS

Skilled and experienced public health personnel needed in developing countries on two-year volunteer assignments with IVS. Work is on rural development projects aimed at benefiting low-income groups. Professional training and practical work experience essential; previous overseas experience preferable. No nationality or age restriction. Expenses paid include minimum stipend of $80 a month, transportation, insurance and living allowance; housing provided.

INTERNATIONAL UPCUSA

Nurses, physicians, some other medical personnel, medical students, support personnel needed for hospitals/community health programs in Egypt, Kenya, Zambia, Malawi, India, Pakistan, Nepal, Thailand, Korea. Terms: 1 month to 2 years. Room and board usually provided. Must be church members.

INTERNATIONAL 2 Years WIP

World Issues Program — two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

LEGAL (US/Canada)

NORTHWEST STATES, ALASKA 1 Year (Aug-Aug) JVC(NW)

Men/Women, 21 and older. US citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Legal aid, community organizing. Room and board, small stipend (max $50/mo), health insurance and travel are provided. Apply April-August each year.

SACRAMENTO, CA Year-Round CCLP

Legal clinic servicing impoverished area with free legal advice and referrals, esp. welfare and job-related cases. Lawsuits relating to domestic work currently being handled. Attorneys, law students, para-legals as well as non-legally trained personnel all needed. Free room, board, necessary expenses provided.

KANSAS CITY, KS **On going after Jan. 1** **CLCC**

Community Legal Advocacy Services is designed to provide legal education and legal representation to low and middle income residents. Need a lawyer committed to working for empowerment of the individual. Salary negotiable to $10,000 yr.

LONG ISLAND, NY **Year-Round** **LIEJA**

Organizations fighting in the interests of agricultural, other low-paid workers, and the unemployed, by providing free legal services and welfare advocacy need volunteers to assist in this vital work. Activities also include jail visits and aid to prisoners in the Suffolk County jail. Free room, board, and expenses provided

UNITED STATES **NISBCO**

NISBCO is an interreligious peace service organization. Full time staff of five - present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required, with graduate work in counseling and communications desired for some positions.

MENTALLY/PHYSICALLY HANDICAPPED (US/Canada)

NORTHWEST STATES,
ALASKA **1 Year (Aug-Aug)** **JVC(NW)**

Men/Women, 21 or older. US citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Alcohol rehab., mentally handicapped. Room & board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April-August each year.

CORONA, CA **Mid-June to Mid-Aug.** **UCC**

Peppermint Ridge is a residential community for retarded children, youth and young adults. Volunteers will assist regular staff in direct care of the residents, run errands staff is unable to do, and provide the extra individualized attention residents need. Two persons needed. Cost: $18 program fee plus travel.

WASCO, CA **July '79 - June '80** **WADD**

Program designed to maximize the independence of mentally retarded and other handicapped adults in a work environment with non-profit organization in rural San Joaquin Valley setting. Knowledge of Spanish helpful. Apply by May 1, 1979. Room and Board provided; pay own transport and personal expenses. Aliens okay. Needs include: 1) Two vocational instructors, age 18 up; two years exper / trng. in carpentry, retail sales, small appliance repairs or office skills. 2) Two instructors in pre-vocational training, domestic and basic education skills, Special Olympics, recreation. 21 years and over; two years college or qualifying exper. 3) One Activities in Daily Living specialist to do client assessment; plan implement individual program counseling; coordinate/supervise/instruct in areas of daily living. Age 21 up, B.A. or two years college plus qualifying exper. 4) One rehabilitation coordinator to do initial client assessment; plan and implement individual vocation plan; counseling. Age 21 up; B.A. or two years college plus qualifying exper.

YUCAIPA, CA June 29 - September 3 UCC
Pilgrim Pines is the camp/conference center for the United Church of Christ in Southern California. They need 2 to 4 workers to assist in their summer camping program which has a heavy emphasis on mentally retarded children and a cross-cultural program in ministry to inner-city youth. Volunteers must be 21 or older. Cost: $18 program fee plus travel.

MARKHAM, ILLINOIS Year-Round GCMC
Approximately 15 volunteers needed to work for a minimum of one year in a church center day care program and rehabilitation program for mentally handicapped in a disintegrating suburban area. Room, board, and $30 per month is provided.

NEILLSVILLE, WISCONSIN June 4 - August 17 UCC
Involvement at Sunburst Youth Homes, a residential treatment center for emotionally disturbed children. Tutoring, special activity programming, and general assistance with supervision included among responsibilities. Ages 20 to 25, male and female. Cost: $18 program fee plus travel.

CROZET, VIRGINIA Year-Round IV
Innisfree is a working community of 50 people located on a 400 acre farm in the Blue Ridge. Staff live with mentally handicapped with responsibilities of homemaking and house-parenting as well as work in either woodshop, weavery, bakery, or gardens.

UNITED STATES Longer-Term JVC(East)
Men and women; over 21 or college graduate; one year term - August to August; apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES RFB
RFB provides free recorded educational books to blind or physically handicapped persons, including dyslexics, who cannot read the printed word. Increasing a library of more than 42,000 recorded educational titles demands large numbers of unpaid volunteer readers and monitors in 29 RFB studios in Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Kentucky, Massachusetts, Michigan, New Jersey, New York, Tennessee, Texas, Virginia and the District of Columbia. Volunteers ages 20 and over, who must have at least two years of college or a technical specialization, give a minimum of 2 hours per session on a regular weekly schedule.

MINISTRY/RELIG. SERVICE (US/Canada)

ANCHORAGE, ALASKA Longer-Term UPCUSA
Tri-Anchor Ecumenical Parish—College upper-classperson to serve as parish worker for 3 churches. Music background, leadership ability, and a knowledge of youth ministries is important as one develops programs for existing groups of teenagers and younger children. United Presbyterian and United Methodist.

JUNEAU, ALASKA Longer-Term UPCUSA
Northern Light United Church—Youth worker, mature, self-motivated person needed to oversee youth hostel (1,000 visitors a year) and work with the congregation's youth in programming. Music ability helpful. Assist pastor as needs arise in congregation.

NOME, ALASKA Longer-Term UPCUSA
Aywaan Bering Sea Larger Parish—2-3 women/(couple without children) to serve as youth/young adult workers in white Eskimo community. Guitar/piano helpful. Communal living. Methodist/Presbyterian.

NORTH POLE, ALASKA Longer-Term UPCUSA
New Hope Methodist/Presbyterian Church - church worker needed for secretarial work and to serve as choir director for this new church development congregation. Work at home and at the worship site (Grange Hall). Part-time secular employment will be found to fund support.

SANTA CRUZ, CA 1 to 6 months RCNV
Internship with Resource Center for Nonviolence. Work with staff in collective situation. Study possible. Local organizing possible. Send personal statement of interests. Cost: $80 to $150 room and board, plus transportation. Time by arrangement.

BOVILL, IDAHO Year-Round UPCUSA
Student pastor to preach, conduct worship, teach Sunday school, work with youth, serve 1 week as camp counselor, home visitation in logging town of 200. Scholarship.

BUCKHORN, KENTUCKY Summer UPCUSA
Buckhorn Lake Area Church - summer assistant to pastor to work with children and families, assist in worship, preach if desired, parish visitation.

VERDEL, NEBRASKA Summer UPCUSA
Lewis and Clark Ministries - 3 Lake ministry summer workers, 1 director for recreation ministry including ecumenical worship services, visitation, crafts, hikes, athletics, public relations. Volunteers provide own food but stipend available.

ALBUQUERQUE, NM Longer-Term UPCUSA
Shepherd of the Valley UPC - Church Administrative Assistant with primary responsibility for administering youth club program. Special skill in music helpful. Work with post-high school group, Deacons, church communication.

LOS ALAMOS, NM Longer-Term UPCUSA
White Rock United Presbyterian Church - Young adult needed to continue bus ministry to elementary children, develop ministry, teach in church school and participate in youth fellowship programs. Support is needed by self or local church, up to $60 a month. Tri-cultural area. Anglo, Hispanic, Native American.

CORVALLIS, OREGON Longer-Term UPCUSA
United Campus Ministry, Oregon State University - needs student assistant working in areas of interpreting campus ministry to students, program planning

and cooking for Sunday evening program, public relations to community and campus while living in campus community.

MEMPHIS/MILLINGTON, TENNESSEE Summer UPCUSA

Trinity Memphis/Millington UPCUSA (summer ministries) - Director of youth program for 2 yoked churches, study, recreation, vacation church school, athletics, over-night camping. Multi-racial and military community. Supply preaching during pastor's vacation. Person must take initiative to get program off the ground.

TEXAS Year-Round VESS

Low-income Catholic parishes in Texas need religious education coordinators, liturgists, and youth workers. Requirements: experience in parish work and administration. $80/month, furnished housing, board, transportation, medical insurance. Orientation and workshops offered.

COLVILLE, WASHINGTON Year-Round UPCUSA

Sparks of Life - Director of youth ministries for ecumenical program in small churches, to organize a Christ-centered approach to rural youth, to provide viable alternative social activities, and to develop leadership potential of youth.

UNITED STATES Year-Round CSC

Christian Service Corps is a volunteer, interdenominational program that recruits, selects, places, and trains skilled Christian laypeople for two year assignments with mission boards, Christian institutions, national churches overseas, and, on occasion, foreign governments. Persons with Christian commitment and specific job skills are sought.

UNITED STATES NISBCO

NISBCO is an interreligious peace service organization. Full time staff of five - present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required with graduate work in counseling and communications desired for some positions.

MINISTRY/RELIG. SERVICE (Outside N. Amer.)

LEICESTERSHIRE, ENGLAND Intermittent Vacancies 8 wks+ HH

Christian Community living with 15-30 International people. 2 wk + Room and board. Committed Christians. No paid travel expenses. Work permit not required. Senior Pastor or Theologian. Lutheran Conference Centre. Caters 100. Houseparties, Summer Camps, Conferences. International flavor.

INTERNATIONAL Year-Round CSC

Christian Service Corps is a volunteer, interdenominational program that recruits, selects, places, and trains skilled Christian laypeople for two year assignments with mission boards, Christian institutions, national churches overseas and, on occasion, foreign governments. Persons with Christian commitment and specific job skills are sought.

NATURAL SCIENCES/ECOLOGY (US/Canada)

CORDES JCT., ARIZONA Short-Term CF

Arcosanti Workshops - 1979 -Jan. 15, Feb. 19, Mar. 26, Apr. 30, June 1, June 25, July 25, July 30, Sept. 3, Oct. 1. 52 staff members, students—only requirement is 18 yrs. and over. Aliens permitted. Cost: $440 for each 5 wk., learn by building workshop. Covers food, insurance, tuition, sleeping pad, hard hat. Purpose: to build an ecologically-sound, energy-efficient, solar powered future city for 5000

UNITED STATES Longer-Term JVC(East)

Men and women; over 21 or college graduate; one year term - August to August; Apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES 2 Year WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

NATURAL SCIENCES/ECOLOGY (Outside N. Amer.)

LEICESTERSHIRE, ENGLAND Intermittent Vacancies 8 wks+ HH

Christian Community living with 15-30 International people. 2 wk + Room and board. Committed Christians. No paid travel expenses. Work permit not required. Experienced teacher. Lutheran Conference Centre. Caters 100. Houseparties, Summer Camps, Conferences. International flavor.

INTERNATIONAL 2 Years WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social economic development, peace/conflict resolution, intercultural communication. 30 students

OREGON Year-Round NSWA

Northwest Seasonal Workers Association, an organizing drive to improve living and working conditions of seasonal and low-paid workers in S. Oregon, needs volunteer organizers to be trained in systemic organizing method. Free room, board, and expenses.

DEER LODGE, TENNESSEE Summer UPCUSA

Morgan-Scott Project - 3 men/women as field workers in recreation and creative ministries in Appalachia communities. Experience in crafts, youth work, and community organizing helpful.

UNITED STATES Longer-Term JVC(East)

Men and women; over 21 or college graduate; one year term — August to August; Apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES, VARIOUS LOCATIONS Year-Round NATLFED

Voluntary mutual benefits associations throughout the U.S. organizing workers unrecognized by Taft-Hartley and National Labor Relations Act who make up the lowest-paid strata of the country. Volunteers are trained in skills necessary to build grass-roots organizing drives. Free room, board and expenses.

UNITED STATES NISBCO

NISBCO is an interreligious peace service organization. Full time staff of five - present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required, with graduate work in counseling and communications desired for some positions.

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ORGANIZING (Outside N. Amer.)

INTERNATIONAL 2 Years WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

TEACHING (US/Canada)

BATTLES WHARF, ALABAMA May 15-June 24 ECMCC

La Casa de Amigos, 6 week day care center for about 100 Mexican-American pre-school children, needs 30 men and women 18 years and over with one year of college. Spanish helpful but not required. Applications by March 15; notification by May 1. Room, board. Cost: travel.

NORTHWEST STATES, ALASKA 1 Year (Aug-Aug) JVC(NW)

Men/Women, 21 or older. US citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Teachers, certified preferred, K-12. Room & board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April-August each year.

GANADO, ARIZONA Year-Round UPCUSA

Classroom instructors, bookkeeper/accountant, dorm director resident, secretary, grounds keeper at UP related college. Interpersonal skills important. Navajo community.

JACKSON, KENTUCKY Year-Round UPCUSA

Lees Junior College - 3/5 men/women to serve church related school in Appalachia as public relations person, mechanical engineer (stipend), library or reading lab assistant, classroom instructor (possibly a retired person).

CHIMAYO, NEW MEXICO Year-Round UPCUSA

John Hyson Education Center - needs 2 college students fluent in Spanish and English as directors of summer storybus program and recreation program for children grades 1-12. Year-round needs for certified teachers with pre-school and early elementary children. Affiliated with UPCUSA.

SYRACUSE, NEW YORK NALA

475 literacy councils located throughout the United States and Canada. Project is continuous. NALA is the volunteer membership organization of Laubach Literacy International. 21,000 volunteers teach literacy skills to English and non-English speakers. Services undereducated youth and adults. Required 10-18 hour training workshop. Minimal charge for tutoring materials. NALA gives technical help to establish literacy councils.

TEXAS August-May VESS

Low-income Catholic schools in Mexican-American communities of Texas need per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

ORGANIZING (US/Canada)

NORTHWEST STATES, ALASKA 1 Year (Aug-Aug) JVC(NW)

Man/Women, 21 or older. US citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Legal aid, community organizing. Room and board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April—August each year.

LOS ANGELES, CA Summer UPCUSA

National Farm Worker Ministry - 5 men/women, college age up, to work in farm worker organization. Training provided to link farm workers with supportive Christians.

SANTA CRUZ, CALIFORNIA July-August 1 or 2 Months PNFF

Nuclear disarmament organizing project to convert local Lockheed facility away from producing Trident nuclear weaponry. Interest in disarmament, nonviolence, local organizing requested. Limit 10 women and men. Cost: $150 room and board. Apply 6/1.

SANTA CRUZ, CA June 15-30 RCNV

Training Session in Nonviolence Organizing. Skills concepts, and history of organizing from nonviolence convictions. For those with interest in local organizing. Limited to 15 women and men. Cost: $75-100 plus transportation. Apply by May 15.

CALIFORNIA Year-Round WSWA/CHA

Oakland, Redding, Sacramento, San Diego, Santa Cruz, Santa Ana. Association of domestic and attendant care workers united with aged, blind and disabled recipients of in-home care, with membership over 10,000, needs volunteer organizers to expand state-wide strata organizing drive. Volunteers are trained in methodology of organizing. Activities include canvasing, benefits work, membership meetings. Room, board, expenses.

CALIFORNIA July-August 1 or 2 months PNFF

Resist nuclear power organizing project, focused at the Diablo Canyon nuclear power plant, San Luis Obispo. Interest in nuclear issue, nonviolence, local organizing requested. Cost: $150 room and board per month, plus transportation. Apply by 6/1.

CALIFORNIA—TEXAS—FLORIDA June 15-September 1 UCC

The United Farm Workers is seeking five workers to be assigned to different offices of the movement in Florida, Texas and California. Work will vary depending on need. 10-12 hours/day, 6 day week. Age 18 and over. Cost: $18 program fee plus travel.

MASSACHUSETTS Year-Round WMLA
Organization of service, domestic and unemployed workers in Berkshire Mountains of Western Mass. building an association able to fight in their historic self-interest and make permanent changes. Volunteer organizers needed. Training provided. Room, board, and necessary expenses provided.

N.Y.—LONG ISLAND
AND UPSTATE Year-Round EFWA
Statewide organizing campaign of migrant and seasonal farmworkers, low-paid and unemployed, 7,000 strong, supporting service center, benefits program, seeking lasting changes to the problems of this unrecognized strata. Professional organizers teach skills of organizing. Free room, board, expenses.

TROY, NEW YORK Year-Round UPCUSA
United Urban Ministry - ⅓ women/men to serve as fund raisers, proposal writers, youth workers, welfare advocates, and community dispute settlers in ecumenical social action agency.

N.Y., NEW JERSEY
PENNSYLVANIA, MASS. Year-Round ESWA
Grass-roots associations of low-paid, household and temporary workers, and the unemployed are building alternatives to poverty among service workers. Training in all facets of organizing. Free room, board, and expenses provided.

DAYTON, OHIO Year-Round FASA
Financial Aid Student Association: A regional organization dedicated to improving living, working, and studying conditions which surround students-as-workers, workers-as-students, in the Miami Valley region. Free room, board, and expenses.

FAIRBORN, OHIO Year-Round WSFASA
Organizing drive of campus and community attempting to unite groupings of ex-students, denied students, and would-be students in general, in the Fairborn, Ohio area to improve permanently the living and working conditions which surround them. Free room, board, and expenses.

YELLOW SPRINGS, OHIO Year-Round AFASA
Organizing drive of campus and community attempting to unite groupings of ex-students, denied students, and would-be students in general, in the Yellow Springs, Ohio area to improve living and working conditions permanently. Free room, board and expenses.

OKLAHOMA CITY, OK 2 Years GCMC
Two year volunteers needed to work with a group of 6-10 people in day care centers, housing rehabilitation programs, community recreation programs, advocacy, and other social justice efforts. Room, board, travel and $30 per month allowance are provided.

teachers (all levels). Requirements: Bachelor's degree, one semester of teaching experience; Spanish is sometimes necessary. $80/month, furnished housing, board, transportation, insurance, in-service training.

UNITED STATES Longer-Term JVC(East)

Men and women; over 21 and college graduate; one year term - August to August; Apply after Jan. 1st; Urban and Appalachian. Room, board, stipend, health insurance, transportation provided. Emphasis on social justice, community, simple lifestyle, Christian service.

UNITED STATES NISBCO

NISBCO is an interreligious peace service organization. Full time staff of five - present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required, with graduate work in counseling and communications desired for some positions.

TEACHING (Outside N. Amer.)

EGYPT 2 Years UPCUSA

Ramses College for Girls, Cairo seeks teachers for lower and upper primary schools and English teachers for secondary school. Room, board, transportation and pocket money provided. Church membership required. Application deadline: June 1, 1979.

ODAWARA, JAPAN 2 months to 2 years LIOJ

LIOJ is a small, residential English school for students and businessmen desiring cross-cultural experiences as well as language instruction. Fifteen teachers range in age from 25-35 years, have TEFL degrees. Deadline for applications is February 1, 1979.

JAPAN 2 Years UPCUSA

College graduates to teach English conversation on high school and junior college levels at various private Christian schools. April openings. (Few openings possible in September.) Support for minimal living expenses. Church membership required.

JAPAN 2 Years YMCA

Opportunity for recent college graduates to teach Conversational English in YMCA Language Schools. Stipend and housing allowance provided.

TAIWAN 1 Year YMCA

Opportunity for recent college graduates to teach Conversational English in YMCA Language Schools. Stipend and housing allowance provided.

THAILAND 2 Years UPCUSA

College graduates to teach English conversation at schools of the Church of Christ in Thailand. Room, board and small monthly allowance. Intensive language training provided. Church membership required. Begin in April; applications must be received by January 15th each year.

TRADE SKILLS (US/Canada)

SITKA, ALASKA Summer UPCUSA

Sheldon Jackson College - 25 men/women to work full-time supplementing staff. Minimum stay 2 months. 3 museum workers, 4 library helpers, 6 couples for dorm/building supervision for cleaning. For mechanics, plumbers, carpenters, electricians, painters, time can be negotiated. Administrative positions.

NORTHWEST STATES, ALASKA 1 Year (Aug-Aug) JVC(NW)

Men/Women, 21 or older. US citizens with college degree or equivalent work skills. Mature, adaptable, sense of humor, Christian motivation. Trade skills, mechanic, electrician. Room & board, small stipend (max $50/mo.), health insurance and travel are provided. Apply April-August each year.

KANSAS CITY, KS On going Program CLCC

Housing Repair program needs semi-skilled or skilled carpenter/electrician/plumber to provide labor in self-help program for area homeowners with limited resources. Subsistence stipends negotiable with agency.

STERLING, KANSAS Summer UPCUSA

Sterling College - Carpenter needed to make minor repairs on current facilities to conform with regulations for the handicapped. Presbyterian related college. Stipend.

UNITED STATES Year-Round GCMC

Persons with building skills needed for housing rehabilitation projects in deteriorating communities in Philadelphia, PA, and Wichita, KS, and for minor home repair for low-income people in Portland, OR and Oklahoma City, OK. Room, board, travel, and $30 per month is provided.

CANADA Summer Plus (2-18 months) FF/OB

Canadian international inter-ethnic work camp program involving construction projects in Indian and white low-income communities to provide housing while promoting friendship and understanding between people, and arouse concern for social needs. Travel in Canada only, room and board provided.

TRADE SKILLS (Outside N. Amer.)

AFRICA/NEW GUINEA Anytime LWM/VS

Plumbers, maintenance, mechanics, etc., to assist church related projects and train. Christian commitment. Trade certified some situations. Housing provided. Volunteer responsible for transportation ($2,200); living costs provision varies zero up.

LATIN AMERICA July/August AFSC

Co-sponsors community service units with Mexican and Central American organizations. Seven weeks in rural villages. Construction, building repairs, youth work, gardening, etc. Ages 18-26. Spanish essential. Cost: $350, plus transportation.

INTERNATIONAL IVS

Skilled and experienced engineers continually needed in developing countries on two-year volunteer assignment with IVS. Work is on rural development projects aimed at benefiting low-income groups. Professional training and practical work experience essential; previous overseas experience preferable. No nationality or age restriction. Expenses paid include minimum stipend of $80 a month, transportation, insurance and living allowance; housing provided.

MULTIPLE (US/Canada)

BARROW, ALASKA July-August/6 weeks LISLE

Intercultural education program with a human relations focus. Exploration of changing values and attitudes of an indigenous Eskimo population. Cooperative group living at Inupiat University of the Arctic and local field experiences; opportunities for extended service work and participation in community life. Group of 10-15. Open to students and other adults. Apply by April 1. Cost: to be announced. Financial assistance available.

SITKA, ALASKA Summer UPCUSA

Sheldon Jackson College - 25 men/women to work full-time supplementing staff. Minimum stay 2 months. 3 museum workers, 4 library helpers, 6 couples for dorm/building supervision for cleaning. For mechanics, plumbers, carpenters, electricians, painters, time can be negotiated. Administrative positions.

CLAREMONT, CA June 14-August 30 UCC

Summer volunteers will augment and assist full-time staff of Pilgrim Place, a retirement community. Work will include personal assistance to residents, special activities, general kitchen and dining room work, gardening and community outreach programs related to nutrition, health care, and fellowship. Two persons needed. Cost: $18 program fee and travel.

WASCO, CALIFORNIA July '79-June '80 WADD

Program designed to maximize the independence of mentally retarded and other handicapped adults in a work environment with nonprofit organization in rural San Joaquin Valley setting. Knowledge of Spanish helpful. Apply by May 1, 1979. Room and board provided; pay own transport and personal expenses. Aliens okay. Needs include: 1) Two vocational instructors, age 18 up; two years exper./trng. in carpentry, retail sales, small appliance repairs, or office skills. 2) Two instructors in pre-vocational training, domestic, and basic education skills, Special Olympics, recreation. 21 years and over; two years college or qualifying exper. 3) One Activities in Daily Living specialist to do client assessment; plan/implement individual program counseling; coordinate/supervise/instruct in areas of daily living. Age 21 up, B.A. or two years college plus qualifying exper. 4) One rehabilitation coordinator to do initial client assessment; plan and implement individual vocation plan; counseling. Age 21 up; B.A. or two years college plus qualifying exper.

COLORADO, OREGON 2 Years GCMC

Two year terms for advocates, environmental organizers, and other community action people in the grassroots volunteer programs now underway in Portland, OR; Denver, CO; and other urban areas. MVS covers expenses plus $30 per month.

INDIANAPOLIS, IN June 1-September 3 UCC

One worker to give assistance in occupational therapy, nursing care, escort service, organizing, and conducting field trips or reading and writing for residents. 20 or above. Cost: $18 program fee plus travel.

KANSAS CITY, KS Year-Round GCMC

Community organizers, alternative school teachers, and advocacy personnel needed for two year assignments with ongoing programs. Room, board, travel and $30 per month allowance provided.

JACKSON, KENTUCKY Year-Round UPCUSA

Lees Junior College — 3-5 men/women to serve church related school in Appalachia as public relations person, mechanical engineer (stipend), library or reading lab assistant, classroom instructor (possibly a retired person).

BOSTON, MA June 18-August 26 UCC

Pilgrim Church, an inner-city congregation, seeks five young adults to assist in feeding programs, an outdoor urban market, senior citizen activities, vacation church school, day care center, and overnight camping. Cost: $18 program fee plus travel.

NEW HAMPSHIRE Summer NCC/ DE&M

A conference center in a mountain/lake setting offers summer employment opportunities to youth. Minimum age: 16. A combined work/serviceship with moderate compensation, plus food, lodging and insurance. Staff activities offered.

ALBUQUERQUE, NEW MEXICO Year-Round UPCUSA

Menaul School - Music teacher, Media center assistant, maintenance person, auto mechanic, farm manager, dining room supervisor, dietician, host/hostess for minority high school.

SYRACUSE, NEW YORK NALA

475 literacy councils located throughout the United States and Canada. Project is continuous. NALA is the volunteer membership organization of Laubach Literacy International. 21,000 volunteers teach literacy skills to English and non-English speakers. Services undereducated youth and adults. Required 10-18 hour training workshop. Minimal charge for tutoring materials. NALA gives technical help to establish literacy councils.

NEW YORK 3 weeks to 3 months NEW

Anyone over 18 willing to learn about extreme poverty while helping with manual, clerical, research, educational work. Men and women, communal living; household duties shared. Volunteer pays own food, receives $25/week after first month.

WISHEK, NORTH DAKOTA June 14-August 14 UCC

Volunteers will be involved in outdoor/recreational activities with the residents of this Wishek Retirement and Nursing Home. Also assist in feeding, reading to, and transporting some residents. Need five volunteers, age 18 and over. Room and board provided. Cost: $18 program fee plus travel.

ALLENTOWN, PA June 7-August 20 UCC

Volunteer will work at the Phoebe-Devitt Home for the Aged, with the Activity Department, in activities ranging from visiting and transporting wheelchair-bound residents to crafts, games, and music. Community trips and outdoor recreation also. Cost: $18 program fee plus travel.

NEWPORT, TENNESSEE Summer UPCUSA

Sunset Gap Community Center - 2 men/women for work-study group coordinator, recreation director, librarian, and community aide in rural mountain community of eastern Tennessee.

TEXAS Year-Round VESS

Need teachers, religious educators, social workers, liturgists, counselors, and others for low-income Catholic parishes, schools, and agencies in Texas. Degree and/or work experience. Spanish useful. $80/month, food allowance, furnished housing, transportation, insurance, in-service training.

SOUTHEASTERN UNITED STATES UMVIM

United Methodist Volunteers in Mission is an official channel in the Southeastern Jurisdiction through which persons may offer themselves for work on short-term mission projects. It is also a channel through which the General Board of Global Ministries communicates official requests for volunteers. These appeals are generally for assistance with medical services, on building projects, or other forms of a caring ministry. Participants receive no stipend and often cover their own expenses.

SOUTHWESTERN U.S. (CALIFORNIA, ARIZONA) Aug-Aug (1 Yr.) JVC(SW)

Volunteer agency that places forty men and women in Christian based communities working with the poor and oppressed of inner cities and on Indian reservations. Differing jobs needing work or school experience. Rm/Bd/Ins & $50 per mo. Apply in Spring.

UNITED STATES BVS

Volunteers work in youth counseling, construction, community development, medicine, office/secretarial, care of children and aged, maintenance, etc. Room, board, and $20 monthly allowance. One month orientation provided. One year commitment.

UNITED STATES Year-Round JVC

Need legal and social workers, nurses, hospital personnel, radio technicians, catechists, carpenters, cooks, librarians, teachers, daycare workers, secretaries, coaches, etc. Must love people, be flexible and gritty, with sense of humor. Opportunities to develop Christian communities. Board, room, insurance, and small monthly stipend provided. Minimum age: 21.

UNITED STATES Year-Round LAOS

Variety of learning/working experiences for volunteers with varied skills and interests. Church related and secular projects. Long and short terms. Subsistence available for long term. Minimum age: 18. Two training sessions in 1979: June 4-11 and September 7-16.

UNITED STATES Year-Round MBM

Mennonite Board of Missions Health and Welfare division administers 25 hospitals, children's programs, nursing and retirement homes. Openings for doctors, nurses, technicians, houseparents, careworkers, social workers. Prevailing wages paid. 18 and over.

UNITED STATES NISBCO

NISBCO is an interreligious peace service organization. Full time staff of five - present division is three women and two men. An average of two openings per year on an irregular schedule. Applicants normally screened through the volunteer agencies of their religious group. Subsistence incomes are tailored to individual needs. College degrees required, with graduate work in counseling and communications desired for some positions.

UNITED STATES Year-Round UCC

Year-round positions in homes for emotionally disturbed children, homes for aging, mental institutions, community organizing projects, inner-city programs—tutoring, club programs, camping, etc. Assignments are made on basis of comprehensive application forms. Volunteer receives meals, lodging, insurance coverage, pocket money. Must provide own travel to project. Placement is year-round.

CANADA (NEAR TORONTO, ONTARIO) GC

Grindstone Island is a centre for educational activities on peace, justice and development. Owned and operated by the Grindstone Cooperative, the island centre is open from mid-May to mid-September. The Cooperative develops and sponsors programs on a variety of international social concerns. The island centre is also rented on a nonprofit basis to other organizations involved in peace, justice, and development for conferences, workshops, and retreats.

CANADA 2 Years GCMC

Two year terms for advocates, environmental organizers, and other community action people in the grass-roots volunteers programs now underway in Hamilton, Ontario, and other urban areas. MVS covers expenses plus $30 per month.

MULTIPLE (Outside N. Amer.)

AFRICA AND CENTRAL AMERICA TNS

A non-profit, membership corporation whose primary purpose is providing technical assistance leading to the establishment or expansion of self-help enterprises benefiting the low-income populations of developing countries. Operating programs in Ghana, Kenya, El Salvador, and Nicaragua. Seeks qualified M.B.A.'s, accountants, engineers, and animal husbandry and agricultural specialists. Previous overseas experience required. Spanish required for placement in Central America.

COLOMBIA (MEDELLIN) July-August/6 Wks LISLE

Intercultural education program with a human relations focus. An in-depth approach to understanding the approaches to social service and development work. Field work experiences, family homestays, and opportunities for involvement at many levels of socio-economic development. Travel to other cities possible. Good knowledge of Spanish required. Apply by April 1. Cost: $650 inc. air from Miami and in-country expenses.

LIVERPOOL, ENGLAND Year-Round GGP

Concrete and Poetry. Great Georges Community Cultural Project offers hard interesting work to men/women. Opportunities to learn construction skills alongside experienced builders, and work on cultural programme (games; film, sound + other workshops; events). Also a share of administration, housekeeping, etc. Accommodation available.

PIERRELAYE, FRANCE & WESTERN EUROPE 2 Years Minimum IM

Clerical, manual, research; work w/children, youths, adults toward understanding causes of social exclusion and eliminating extreme poverty. Room & board provided, transportation not; stipend after 1st mo. See NEW in N.Y.; French helpful, not required.

GREAT BRITAIN Mid-June thru August WV

Living/working experience in London, Liverpool, etc. 30 men/women students volunteer in youth clubs, settlement houses, playschemes, schools for handicapped. Cost: about $900 for travel and incidental expenses, includ. 3 weeks own travel. Room and board provided. Some scholarship aid avail. Deadline 1/31.

INDIA July-August/6 Wks LISLE

Intercultural education program with a human relations focus. Theme: "Non-Violence & Social Change." Travel, field experiences and seminar discussions in major South Indian cities. In-country orientation. Opportunities for involvement in rural community life and development projects; planned homestay included. Apply by April 1. Cost: $1,500-inc. air (from USA)/all in-country costs.

ISRAEL (HAIFA/NAZARETH) July-August/6 Wks LISLE

Intercultural education program with a human relations focus. Theme: "Pathways towards peace and reconciliation." Field experiences in human services, education, and development areas. Cooperative group living and family homestays. Dialogues and discussions with Arabs & Israelis. Some travel related to program. Open to mature persons with serious interest. Apply by April 1. Cost: $1,600 inc. air/in-country exp.

NEW GUINEA Anytime LWM/VS

Opportunities for skilled short-term (2 mos-2 yrs) self-supported volunteers; mostly church-related projects. Christian commitment. Each case separately negotiated. Lead time helpful. Health/ed/development/business/other defined skills.

INTERNATIONAL **BVS**

Volunteers with special skills/language are placed in 15 nations in Latin Am., Europe, Africa, Middle East. Most persons are college graduates. Transportation, room, board, monthly allowance. One month orientation provided. Two year commitment.

SOUTHEASTERN UNITED STATES **UMVIM**

United Methodist Volunteers in Mission is an official channel in the Southeastern Jurisdiction through which persons may offer themselves for work on short-term mission projects. It is also a channel through which the General Board of Global Ministries communicates official requests for volunteers. These appeals are generally for assistance with medical services, on building projects, or other forms of a caring ministry. Participants receive no stipend and often cover their own expenses.

● WORK CAMPS/GROUP SERVICE

Involve physical labor on a project of social significance . . . a project in which people from widely varied backgrounds can find common life and understanding in their unskilled labor. This is often supplemented by a program of study and discussion which points up the responsibility of the group to the community and the individual to the group. Work Campers usually volunteer their time, share in living expense, and pay their own transportation cost.

WORK CAMPS/GROUP SERVICE (US/Canada)

SANTA CRUZ, CA **Summer 1979, 2 Wks** **RCNV**

Physical work and conversations in nonviolence in a cooperative living situation. Limited to twenty men and women. No particular skills required. Volunteer pays transportation to and from work camp plus $20 for food. Apply by May 15.

FLORIDA
AND OTHER LOCATIONS **June-August** **FOR**

Volunteers are needed for two to four weeks to participate in the life and work of social change organizations such as the United Farm Workers. Room and board provided. Supply own transportation. Emphasis on nonviolence.

KANSAS CITY, KS **Summer** **CLCC**

Work Camps of Youth or Young Adults or Older Adults to assist with minor home improvements to homeowners with limited resources. Weekend or weeklong work sessions can be arranged. Facilities available for housing. Group pays living expenses.

DENVER, COLORADO **Summer** **EFC**

The Encampment for Citizenship, a unique program for special young men and women 16 to 19 years old, will hold its summer, 1979 program in Denver, Colorado. Program includes: two days a week of volunteer community work, small group discussions, films, trips, guest speakers, and a community government. Full and partial scholarships available.

ERIE, PENNSYLVANIA
June 25-August 10 W.PA./W.VA-LCA

6 persons 18 and older (male and female) are needed in an inner-city based religious/educational/recreational program called "Swing-In '79" for children K-grade 6. Skills in music, recreation, teaching, crafts will be helpful. Room and board provided. Cost is $6 for insurance. Application deadline is June 1.

UNITED STATES July 15-Aug 3 BVS

Short term work camp held in Appalachia (KY) for 1979. Work varies, but construction and remodeling of low-cost housing and community services are priority needs. Skilled or unskilled. Volunteers pay own transportation.

U.S., CANADA, 8 EUROPEAN COUNTRIES Summer CMP

Christian Movement for Peace introduces people to peace issues through summer work camps, 3-4 weeks; for adult voluntary service, in US, Canada and 8 European countries. 6 hours minimum manual/social work per day. Informal evenings for reflection and dialogue on peace action. Fee—$30.00, room and board provided, travel expenses not included. Mixed groups—5 to 20 persons, 18 years and over.

CANADA (NEAR TORONTO, ONTARIO) GC

Grindstone Island is a centre for educational activities on peace, justice and development. Owned and operated by the Grindstone Cooperative, the island centre is open from mid-May to mid-September. The Cooperative develops and sponsors programs on a variety of international social concerns. The island centre is also rented on a nonprofit basis to other organizations involved in peace, justice, and development for conferences, workshops, and retreats.

WORK CAMPS/GROUP SERVICE (Outside N. Amer.)

ITALY CDCE

Volunteers to work alongside the permanent staff to help run this ecumenical center for national and international meetings, with kitchen and laundry work, maintenance, cleaning, office work, coffee bar, reception duties. Minimum age 19 years. Minimum period of work 1 month between March-October. Volunteers are asked to contribute 1,000 lire per day.

INTERNATIONAL Summer EYS

Ecumenical work camp projects and group projects of 2 to 6 weeks duration, mostly July/August in Europe, Middle East, Africa, Asia. Cost: $3 and over per day plus travel, insurance. Open to everyone, irrespective of religious beliefs.

INTERNATIONAL Summer ICCP/A

Overseas Camp Counseling positions are available for 4-8 weeks in a number of YMCA and other organizational camps throughout Europe, Asia, Colombia, and Ghana. Participants must be North American citizens, 18-25 years of age, who have completed one year of college and have experience working with children.

Participants pay a $55 application fee and are responsible for all overseas transportation. Deadline: March 1. Send stamped self-addressed office size envelope to ICCP/Abroad for information.

INTERNATIONAL YMCA:W/A

20-35 young men and women (over 18), good health, ability to adjust to new cultures, at least one year of college required. Deadline: April 1. Participants pay travel and living expenses (from $1300 to $2000). Counsel given on how to raise part of your fee. Volunteer service - physical work camps (constructing schools, etc.), teaching English, recreation or camp leaders. Second language helpful (especially for South America). Small teams of 4-8 persons work with YMCAs in host countries. 1979 countries in Africa are Egypt, Kenya, Liberia, Gambia, Senegal; in Asia - Japan, Hong Kong, Taiwan, Phillipines, Israel, and the People's Republic of China (cross-cultural visit); in Latin America - Panama, Colombia, Ecuador, Peru, Brazil, Aruba; in Europe - Portugal, Greece, France, and Switzerland. College credit usually allowed. Excellent multi-national leadership development program.

● INTERCULTURAL EXCHANGE PROGRAMS

Provide opportunities for immersion in contrasting cultures and opportunities for growth and understanding and acceptance of different lifestyles. These programs are sometimes group experiences, but more frequently individual placements in family, church and school settings.

INTERCULTURAL EXCHANGE (US/Canada)

SOUTH DAKOTA Mid-June to Mid-August SIYMCA

6 project members will be sent individually to small, isolated reservation communities to live and work under the direction of indigenous community YMCA organization—in informal recreation, leadership development, counseling, etc. Cost: travel, personal expenses. Minimal maintenance: provided. Application materials available after Jan. 1, 1979.

USA/SOVIET UNION CEC

Citizen Exchange Corps is a nonprofit, nonpolitical organization which arranges intercultural exchange programs with citizens of the Soviet Union. Programs include Intercultural Travel, Hospitality and Special Activities.

U.S.A., ANY COMMUNITY Year-Round EIL

Experiment in International Living works with community-based committees to make possible variety of intercultural programs featuring hosting of international visitors and travel by community youth to other countries. EIL trains committees and U.S.A. hosts, arranges U.S. homestays and summer or semester-abroad stays for U.S. youth.

UNITED STATES 2 Years WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

CANADA (NEAR TORONTO, ONTARIO) GC

Grindstone Island is a centre for educational activities on peace, justice and development. Owned and operated by the Grindstone Cooperative, the island centre is open from mid-May to mid-September. The Cooperative develops and sponsors programs on a variety of international social concerns. The island centre is also rented on a nonprofit basis to other organizations involved in peace, justice, and development for conferences, workshops and retreats.

INTERCULTURAL EXCHANGE (Outside N. Amer.)

SCANDINAVIA 10 months, July-May SS

Living-learning experience for students and other adults. Language mastery; cultural immersion. Studies among Scandinavians in residential "adult education" schools or specialized institutions. Study project; college credit. Cost: $4,600. Programs available in Denmark, Finland, Norway and Sweden.

USA/SOVIET UNION CEC

Citizen Exchange Corps is a nonprofit, nonpolitical organization which arranges intercultural exchange programs with citizens of the Soviet Union. Programs include Intercultural Travel, Hospitality, and Special Activities.

INTERNATIONAL 1 Year ICYE

125 persons (ages 16-24) interested in community service are placed in 20 countries in Europe, Latin America, Asia. They live with families; attend conferences on political, social, economic issues; as well as engage in a wide variety of community services. Travel, housing, food, pocket money are provided. One year program only. Cost: $2,200.

INTERNATIONAL 2 Years WIP

World Issues Program—two semesters of work/study anywhere in the world. A two-year, fully accredited Bachelors degree program (beginning at the junior year) combining two semesters at School for International Training, Brattleboro, VT, with two semesters work abroad in an organization solving problems in the fields of environment/ecology, population/family planning, social/economic development, peace/conflict resolution, intercultural communication. 30 students per class, foreign students encouraged. Cost: about $4000 per year plus travel. Students may earn part or all costs during off-campus semesters. Financial aid available. Starts early September. "Rolling" admission until class filled. Early application recommended.

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ADDITIONAL AGENCY RESOURCES

BOARD OF GLOBAL MINISTRIES OF UNITED METHODIST CHURCH BGM

The Board of Global Ministries of the United Methodist Church places personnel in varied service opportunities. The World Division has a three year term for trained, experienced persons in church development, education, medical, special services. The National Division has five programs in the U.S.: US-2, Home Missionary-Deaconess, Church and Community Workers, United Methodist Volunteers, Indigenous Community Developers. Terms vary.

BOYS' CLUBS OF AMERICA BCA

Founded in Hartford, Connecticut in 1860, Boys' Clubs of America has grown to 1075 local clubs in over 600 cities from coast to coast. Civic minded men and women are needed to join some 100,000 who annually volunteer their services in working with boys and in supporting Boys' Clubs in a variety of ways. Older Boys' Club members provide volunteer services in hospitals, institutions for aging and the handicapped, and embark on sizeable and responsible community service projects. Members are from 7 to 16; program aides to work with boys should be 20 and over. IMPORTANT!! Consult yellow pages in your local telephone directory and apply only to your local Boys' Club location. Staff at the national headquarters address in this book cannot place you with a local agency.

A CHRISTIAN MINISTRY IN THE NATIONAL PARKS CMNP

CMNP seeks seminary and college students to work in national recreation areas (parks, seashores, monuments, etc.) on a worker-priest basis. Jobs are found with a park company or the National Park Service. Off the job, students counsel, lead worship, direct plays, lead choirs, organize recreation, provide Christian education, staff coffee houses, etc. Participants must be at least 20 years old and able to provide transportation to and from the park.

CHURCH WORLD SERVICE CWS

Church World Service is the relief and development arm of denominations related to the National Council of Churches. In carrying out its mandate, CWS sends personnel to many overseas areas. The majority of CWS appointed persons are professional and salaried. Service is normally for a three year term. A limited number of volunteers are appointed for two year terms. It is generally expected that volunteers will have fluency in a second language (usually French or Spanish) plus a college degree or special technical training. Travel, room and board, plus monthly stipend will be provided for volunteers.

COUNCIL ON INTERNAT'L EDUCATIONAL EXCHANGE CIEE

Non-profit organization with membership of more than 170 North American schools, colleges and national organizations. Through its own offices in New York, California, Paris and Tokyo, through campus offices at 310 colleges and universities in the U.S., and through cooperating organizations in 20 foreign countries, CIEE provides comprehensive travel services to about 150,000 students, teachers and administrators annually. Services include low-cost transportation by rail, sea and air (including transatlantic charter flights and student flights within Europe), as well as access to inexpensive tours, car rentals, insurance plans, overnight accommodations, and money-saving documents such as the International Student Identity Card (ISIC). The ISIC entitles the holder to discounts and reductions on transportation, accommodations, etc. abroad. Administers several cooperative study programs abroad including undergraduate language programs in the USSR, undergraduate language programs at several locations in Europe, and a film studies program in Paris. In cooperation with the National Association of Secondary School Principals, sponsors a service enabling American secondary schools to exchange groups of students with linked schools in England, Germany, France, Spain, Japan and Venezuela. Administers in Japan a cultural travel program for members of the Japan Society, a seminar on Japanese Education and Society and a one-year English Fellows Program. Offers a service enabling U.S. students to obtain short-term unskilled jobs in Europe. A similar service enables European students to find short-term jobs in the U.S. Operates a student center providing low-cost accommodations in New York City. Sponsors conferences and workshops on educational exchange. Publications include CIEE, describing the organization; Student Travel Catalog, a complete description of all the travel services and publications available through CIEE; the Whole World Handbook, paperback describing work, study, and travel opportunities around the world for students; the Student Guide to Latin America, a guide to budget travel; and Where to Stay USA, a paperback for the budget traveler in the U.S. with state-by-state listings of low-cost accommodations, hotlines, and information on hitch-hiking and travel.

INSTITUTE OF INTERNATIONAL EDUCATION IIE

The Institute of International Education administers exchange programs with over 120 countries and provides services to technical assistance programs overseas. It offers a wide range of Educational Services to the public, including information and counseling, publications, scholarship programs, and special services to colleges and universities.

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INTERNATIONAL CHRISTIAN YOUTH EXCHANGE ICYE

The International Christian Youth Exchange sponsors year-long experiences among 20 countries for persons ages 16-24 who seek international and intercultural understanding, are particularly interested in the socio/economic/political issues facing the world.

INTERNATIONAL LIAISON IL

Engaged in the screening, training and placement of volunteer lay personnel with Church missions, interdenominational and government volunteer agencies throughout the United States and overseas. It seeks to clarify mission and missionary activity in the light of the conciliar decrees and the world scene as most evidenced by the Third World and its challenges. In 1975 the office began operating as the national Catholic clearing center for such service to channel prospective lay persons to such missions seeking qualified expertise in the area of evangelization. In 1977 the International Liaison became an affiliate of the U.S. Catholic Conference. The office works in close collaboration with the National Council of Catholic Laity.

JESUIT VOLUNTEER CORPS JVC

Jesuit Volunteer Corps seeks mature men and women for a variety of programs working with Jesuits, Catholic agencies, and secular agencies. Emphasis on dedicated service and Christian community; non-Catholics welcomed. Four major areas: Alaska, Northwest Indians, urban ghetto, overseas (Africa, Guam). Teaching, nursing, church work, para-legal, day care, youth work, prison rehabilitation, etc. College degree not essential; stability, guts, and sense of humor are. Minimum age: 21. One year commitment, beginning in mid-August.

MEDICO (a service of CARE) MEDICO

MEDICO, the medical arm of CARE, is a nonsectarian, nonprofit organization which provides health education and services in developing countries urgently needing medical care and health protection. Qualified physicians, dentists, registered nurses and technicians, on two-year assignments, train local personnel and help improve health facilities in medically deprived areas of Africa, Asia, and Latin America. Applicants should be registered/licensed in the United States, Canada, or country of origin. MEDICO pays salary, travel, quarters allowance, and other benefits. Visiting volunteer specialists, paying their own travel and expenses, serve short-term tours of a month or more. MEDICO was founded in 1958 by Dr Peter D. Comanduras and the late Dr. Thomas A. Dooley. In 1962 MEDICO merged with CARE, the international aid and development agency.

MENNONITE BOARD OF MISSIONS Year-Round MBM

Mennonite Board of Missions is the agency for outreach and service of the Mennonite Church. MBM carries out its task through six program divisions with a full-time worker corps of over 1,700. Voluntary Service workers serve in Canada, the United States, and Puerto Rico. Long-term workers serve in overseas church planting. Health and Welfare assists in program and facility development for services to the aging, the ill, the handicapped, and emotionally disturbed youth. Mennonite Broadcasts is a public media ministry. Student Services relates to Mennonite students and young adults.

OXFAM-AMERICA — OXFAM

OXFAM-America is a nonprofit agency dedicated to eliminating the basic causes of hunger through self-help development projects in Africa, Asia, and Latin America. The OXFAM network has provided economic, social, and technical assistance to promote food self-reliance and cultural independence among people in over 70 developing countries. OXFAM is also expanding its broad education program on global poverty, international problems, and practical solutions. Volunteers are needed for research in support of educational materials for the public and to help organize fund-raising events to back OXFAM overseas projects.

UNITED METHODIST VOLUNTEERS IN MISSION — UMVIM

United Methodist Volunteers in Mission is an official channel in the Southeastern Jurisdiction through which persons may offer themselves for work on short-term mission projects both in the United States and abroad. It is also a channel through which the General Board of Global Ministries communicates official requests for volunteers. Each year United Methodists by the hundreds are serving in desperately needy situations as doctors, dentists, technicians, builders, teachers, ministers, nurses, without any remuneration, and often covering their own expenses. The length of time may vary from several days to weeks or months.

UNITED STATES SERVAS COMMITTEE — USSC

Participants needed as hosts and travelers for this nonprofit, non-political, inter-faith program: an international cooperative system whose members share home hospitality in the interest of building world peace and understanding through personal friendships and exchange of views. Approved travelers must pay a registration fee and be at least 18 years old. SERVAS is not a full-time program.

VOLUNTEER CORPS — VC

The Volunteer Corps matches US citizens with voluntary service projects, often in Episcopal church programs. Employers give subsistence wages. Maturity and common sense important. No application deadline. United States, summer, and year-round.

WRITERS IN THE PUBLIC INTEREST — WPI

Writers in the Public Interest encourages writers to volunteer their services to help public interest organizations, and aid such writers and organizations needing help, to find each other. Works in such fields as ecology, education, peace, civil rights and civil liberties, consumer affairs, women's issues, health, etc. WPI invites registrations from writers and from social change organizations. Volunteers are also needed to work part-time in their home communities, researching selected fields of social change to identify organizations needing help, and to aid with the development and administration of the WPI network.

LATE ADDITIONS

Additional Agency Resources:

GRAILVILLE, Loveland, Ohio 45140: Grailville is a rural subsistence community near Cincinnati owned and operated by the Grail, an international movement of women, Roman Catholic in origin but open to participation of women of other traditions in the communal religious search and work for liberation. Offers programs, use of facilities and some opportunities for volunteer help for persons/groups interested in development of women's potential for creativity and transforming action.

INTERNATIONAL DIRECTORY FOR YOUTH INTERNSHIPS, c/o UN Headquarters NGO Youth caucus, Commission for Social Development, Rm. DC977, United Nations, NY 10017: The IDYI lists intern/volunteer positions with the United Nations specialized agencies related to UN and Non-Government Organizations dealing with issues under consideration by the UN. The 1977-78 edition is available. (Preliminary work has begun on a possible 1979-80 edition.) Prices: $2/single copy; $1.50/2-10 copies; $1/copy for orders over 10. Order also from: Foreign Area Materials Center, Suite 1231, 60 E. 42nd St., New York, NY 10017.

ORGANIZATION OF AMERICAN STATES, Antonio Lulli, Director, Office of International Cooperation, 17th and consitiution Ave., NW, Washington, DC 20006: The Organization of American States, an international governmental organization, offers a variety of volunteer opportunities to experienced persons who can donate their services to Latin and Caribbean institutions. Assignments from one month to two years are open in all areas. Language ability preferred. International travel/monthly living stipend provided.

Organizing:

METRO FAIR HOUSING SERVICES, Marty Collier, Director, 1879 Columbia Dr., Decatur, GA 30032: People to organize in housing issues of discrimination, redlining, block-busting, rehab and maintenance. Support integrated neighborhoods and equal housing opportunity. Will train. Research and organizing skills helpful. Rm/board and stipend.

NATIONAL NEIGHBORS/SOUTHERN REGION, Carter Garber, Regional coordinator, 500 S. Dekalb Mall, Box 6 MM, Decatur, GA 30034: Person with community organizing experience needed as Managing Editor of Southern Neighborhoods, the journal of the community control movement in the South. Circulation to thousands of grassroots community leaders. Rm/board and stipend.

SOUTH DEKALB CENTER, Robert Mayfield, VISTA Project Manager, 500 S. Dekalb Mall, Box 6 MM, Decatur, GA 30034: Community organizers to work in organizing low and moderate income integrated neighborhood organizations in largest multi-racial area of Atlanta. VISTA-$250/mo. plus insurance and travel. Will train; one year committment.

Trade Skills:

LONG ISLAND ALTERNATIVE PRESS, Paula Rance, Director, 58 Derby Pl., Smithtown, NY 11787: Volunteers needed to help provide printing resources for independent organizing drives of low income workers. Working toward self-sufficiency in all aspects of printing including photography. All resources for the Press are organized by volunteers. Training available in organizing and printing. Rm/board/necessary expenses provided for full-time volunteers.

Work Camps/Group Service:

VACATION SAMARITANS, Darold H. Jones, Executive Director, P.O. Box 17008, San Diego, CA 92117: Vacation Samaritans organizes a variety of involvement programs for youth and adults through work camps and travel seminars of two weeks in missions in many countries, including a few USA locations. Costs range from $99 to $1,695, including travel. Also, sponsor Special Mission Camps for local church groups of 10 or more persons and Samaritan Corps with 12 week summer mission assignments.

ATTENTION WRITING ENTHUSIASTS AND PEOPLE CONCERNED WITH THE FUTURE OF VOLUNTARISM AND VOLUNTEERING

The Commission on Voluntary Service and Action is considering developing a quarterly magazine with information, research, commentary, and ideas on voluntarism and volunteering. Susan Angus, Editorial Coordinator for INVEST YOURSELF 1979, and a full-time volunteer herself, is requesting that all articles, essays, news items, and notes of interest to volunteers and CVSA agencies be forwarded to her as soon as possible. Your ideas on the future of voluntarism and volunteering are also requested. Please write to Susan at:

Susan Angus
INVEST YOURSELF
13 East Third Street
New York, New York 10003

EDITORIAL NOTE TO POTENTIAL VOLUNTEERS:

If you have difficulty matching your interests and skills with the volunteer opportunities listed in INVEST YOURSELF 1979 and would like additional advice, contact Susan Angus at the above address. (Note: Details on particular projects listed in INVEST YOURSELF must be obtained from sponsoring agencies. CVSA does no direct screening or placement.)

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INDEX TO AGENICES AND ADDRESSES

AA Amigos de las Americas, Dr T J Grosser, Executive Director, 5618 Star Lane, Houston, TX 77057 8, 27

AFASA Antioch Financial Aid Student Association, Mike Kent, Volunteer Coordinator, 1211 Third Ave., Dayton, OH 45402 35

AFSC American Friends Service Committee, Carol Tuttle, Personnel Department, 1501 Cherry St., Philadelphia, PA 19102 19, 23, 25, 39

AJSS American Jewish Society for Service, Mr. Elly Saltzman, Executive Director, Room 1302, 15 E. 26th St., New York, NY 10010 9

AMFS American Farm School, Greek Summer, Nancy Worcester, Program Coordinator, 380 Madison Ave., New York, NY 10017 9

BCA Boys Clubs of America, Frederick D. Koehler, Personnel Administration, 771 First Ave., New York, NY 10017 49

BGM Board of Global Ministries, Office of Missionary Personnel, 475 Riverside Dr., Room 1373, New York, NY 10027 49

BVS Brethren Volunteer Service, Mervin Keeney, Coordinator Recruitment/Interpretation, 1451 Dundee Ave., Elgin, IL 60120 42, 45, 46

CCLP Coalition of Concerned Legal Professionals, Amanda Reid, Esq., Director 1542 A Grand Ave. Sacramento, CA 95838 28

CCMP Coalition of Concerned Medical Professionals, New York: Caryn Hoffman, Spencer Hobson Memorial Farmworker Heath Center, 76 W. main St., Riverhead, NY 11901. California: Judy Gismondi, 5324 San Pablo Ave., Oakland, CA 94608 26

CCNV Community for Creative Non-Violence, Mark Lee, Contact Coordinator, 1345 Euclid St. NW, Washington, DC 20009 22

CDCE Comunita D'Agape, Centro Ecumenico, Segreteria, I-10060 Prali (To), Italy 46

CEC Citizen Exchange Corps, 18 East 41st St., New York, NY 10017 47, 48

CF The Cosanti Foundation, Linda Caputo, Registrar, 6433 Doubletree Rd., Scottsdale, AZ 85253 12, 13, 25, 33

CHIPS Christian Help in Park Slope, Inc., Edwin E. Mohler, President, 233 5th Ave., Brooklyn, NY 11215 20

CIEE Council on International Exchange, Margaret E. Sherman, Publications Editor, 777 United Nations Plaza, New York, NY 10017 50

CLCC Cross-Lines Cooperative Council, M. Myron Dice, Program Director, 1620 S. 37 St., Kansas City, Kansas 66106 16, 20, 26, 29, 39, 45

CMNP A Christian Ministry in the National Parks, 222 East 49th St., New York, NY 10017 49

CMP Christian Movement for Peace, General Secretariat, 121 Avenue Rd., Toronto M5R 2G3, Ontario, Canada 46

CNSI Consolidated Neighborhood Services, Inc., Judi Roman, Resource Coordinator, 2600 Hadley, St. Louis, MO 63106 8, 11, 14, 26

CSC Christian Service Corps, 1509 15th St. NW, Washington, D.C. 20036 32

CWS Church World Service, Paul Yount, Director, Overseas Personnel Office, Room 652, Division of Overseas Ministries, National Council of Churches, 475 Riverside Drive, New York, NY 10027 49

DRF – AI Direct Relief Foundation, Ruth E. Miller, Director of Assignments, 404 East Carrillo St., Santa Barbara, CA 93101 27

ECMCC Ecumenical Committee for Migrant and Community Concerns, Inc., Marion Cleverdon, Route 1, Box 198, Summerdale, AL 36580 15, 37

EFC Encampment for Citizenship, 2 West 64th St., New York, NY 10023 9, 45

EFWA Eastern Farmworkers Association, Ms. Amy Munice, Volunteer Coordinator, 58 Beaver Dam Rd., Bellport, NY 11713 35

EIL Experiment in International Living, Hank Lee, Director Volunteer Service Department, Kipling Road, Brattleboro, VT 05301 47

ESWA Eastern Service Workers Association, Joyce Foglia, Volunteer Coordinator, 196 George St., New Brunswick, NJ 08901 35

EYS Ecumenical Youth Service, World Council of Churches, Att. U.S. Correspondent, Room 1126, 475 Riverside Drive, New York, NY 10027 46

FASA Financial Aid Student Association, Mike Kent, Volunteer Coordinator, 1211 Third Ave., Dayton, OH 45402 35

FF/OB Frontiers Foundation/Operation Beaver, Mr. Charles R. Catto, Executive Director, 2328 Danforth Ave., Toronto, Ontario, M4C 1K7 Canada 39

FOR Fellowship of Reconciliation, Mike Jendrzejczyk, Youth Action, Box 271, Nyack, NY 10960 45

GC Grindstone Cooperative, Ltd., Carl Stieren, Coordinator, P.O. Box 564, Station P, Toronto, Ontario, M5S 2T1 Canada 43, 46, 48

GCMC General Conference Mennonite Church, Director, Mennonite Voluntary Service, 722 Main St., Box 347, Newton, KS 67114 16, 21, 22, 30, 35, 39, 40, 41, 43

GGP Great Georges Project, Great George St., Liverpool 1, England 44

HH Hothorpe Hall, George E. Mayer, Hothorpe Hall, Theddingworth, Lutterworth, Leics LE17 6QX, England 13, 25, 32, 33

ICCP/A International Camp Counselor Program/Abroad, Hilary L. Howarth, Director, 291 Broadway, Room 1305 New York, NY 10007 19, 24, 46

ICYE International Christian Youth Exchange, William D. Jones, Executive Director, David McConnell (West), Ed Schlingman (East), Associate Directors, 74 Trinity Place Room 610, New York, NY 10006 10, 51

IIE Institute of International Education, 809 United Nations Plaza, New York, NY 10017 50

IL International Liaison, Inc., U.S. Coordinating Center for Lay Volunteer Ministries, Matthew R. Paratore, Executive Secretary, 1234 Massachusetts Ave. NW, Washington, D.C. 20005 Suite 1002 51

IM International Movement A.T.D. Fourth World, Father Joseph Wresinski, General Secretary, 122 rue General LeClerc, 95480 Pierrelaye, France 44

IV Innisfree Village, Carolyn Ohle, Coordinator, Heinz Kramp, Director, Route #2, Box 506, Crozet, VA 22932 30

IVS International Voluntary Services, Inc., Peter Snoad, Information Officer, 1717 Massachusetts Ave. NY, Suite 605, Washington, D.C. 20036 13, 14, 28, 40

JCFC Jackson County Fuel Committee, Mark Orrish Coordinator, P.O. Box 4432, Medford, OR 97501 21

JVC Jesuit Volunteer Corps, East-Rev. David J. Hinchen SJ, 18th and Thompson Sts., Philadelphia, PA 19121 Midwest-Rev. Dennis Dillon, SJ, 3601 Whitman Ave., Cleveland, OH 44113 Northwest-Lawrence Gooley, SJ, P.O. Box 3928, Portland, OR 97208 Southwest-Fr. Robert manno, SJ, 920 Peralta, Oakland, CA 94607 12, 18, 19, 22-24, 26-29, 30, 33, 34, 36-39, 42, 51

KFWCLC Klyda Funner Workers Community Law Clinic, Jan Wenig, Coordinator, 1542A Grand Ave., Sacramento, CA 95838 19

LAOS Laos, Inc., Greg Brown, 4920 Piney Branch Rd NW, Washington, D.C. 20011 7, 42

LIEJA Long Island Equal Justice Association, Jim Reaven, 76 W. Main St., Riverhead, NY 11901 29

LIOJ Language Institute of Japan, Roger M. Pehike Principal, Asia Center, 4-14-1 Shiroyama, Odawara 250 Japan 38

LISLE The Lisle Fellowship, Inc., Martin Tillman, Program Director, 1623 Bellmont St. NW, Washington, D.C. 20009 40, 44

LWM/VS Volunteer Services, Lutheran World Ministries, Director, WBE Service, 360 Park Ave. South, Room 8, New York, NY 10010 14, 27, 39, 44

MBM Mennonite Board of Missions, Velma Loewen, Administrative Assistant, Personnel Office, Box 370, Elkhart, IN 46515 23, 43, 51

MEDICO MEDICO, A Service of CARE, Director, medical Contract Personnel, 660 First Ave., New York, NY 10016. 27, 51

NALA National Affiliation for Literacy Advance, Adelaide Silvia, Executive Secretary, Box 131, Syracuse, NY 13210. 8, 9, 37, 41

NATLFED National Labor Federation, Mary Tong, Volunteer Coordinator, 200 West 20th St., New York, NY 10011. 36

NC National Cyrenians, Mrs. Brigid Gifford, 13 Wincheap, Canterbury, England. 23

NCC/DE&M Geneva Point Center, National Council of Churches of Christ in USA, Rev. Harry Widman, Director, Star Route 62, Box 469, Center harbor, NH 03226. 8, 41

NCRY The National Commission on Resources for Youth, Inc., Mary Conway Kohler, Director, 36 W. 44th St., New York, NY 10036. 10

NEW Movement for a New Community, Fanchette Clement-Fanelli, Director, 172 First Ave., New York, NY 10009. 41

NISBCO National Interreligious Service Board for Conscientious Objectors, Warren W. Hoover, Executive Director, 550 Washington Building, 15th and New York Ave., NW, Washington, D.C. 20005. 14, 24, 29, 32, 36, 38, 43

NSWA Northwest Seasonal Workers Association, Mr. Joseph Chase, Volunteer Coordinator, 106 S. Grape St., Medford, OR 97501. 36

OCA Operation Crossroads Africa, Inc., Judy Manning, Director, West Indies Program, 150 Fifth Ave., New York, NY 10011. 8, 10

ODSE Open Door Student Exchange, Educational Director, 132-A Rockaway Ave., Valley Stream, NY 11580. 10

OHP Occupational Health Project, New York: P. Sonabend, 58 Beaver Dam Rd., Bellport, NY 11713. California: Eric Boehm, 510 Laurel St., Santa Cruz, CA 95060. 26

OXFAM OXFAM-America, Volunteer Coordinator, 302 Columbus Ave., Boston, MA 02116. 52

PNFF People for a Nuclear Free Future, Scott kennedy, P.O. Box 2324, Santa Cruz, CA 95063. 34

QLF Quebec-Labrador Foundation, Inc., Caroline C. Leland, Director of Community Programs, The Grist Mill, Mill Rd., Ipswich, MA 01938. 20

RCNV Resource Cetner for Non-Violence, Peter Klotz-Chamberlin, P.O. box 2324, Santa Cruz, CA 95063. 20, 31, 34, 45

RCSC Riverhead Community Service Center, Mr. William Luker, Director, 76 W. Main St., Riverhead, NY 11901. 20

RFB Recording for the Blind, Jan Sneed, Pub[illegible] Relations Officer, Stuart Carothers, Executive Director, 215 E. 58th St., New York, NY 10022. 30

SIYMCA Sioux Indian Young Men's Christian Associations, Dwight W. Call, Director, Box 218, Dupree, SD 57623. 18, 47

SS Scandinavian Seminar, Ms. Gunnel Wrede, Executive Secretary, 100 E. 85th St., New York, NY 10028. 48

TNS Technoserve, Inc., Karen Ann Simmons, Personnel and Administration, 11 Belden Ave., Norwalk, CT 06852. 43

UCC United Church Board for Homeland Ministries-Volunteer Service Programs, Carl A. Bade, Room 81, 287 Park Ave. South, New York, NY 10010. 7, 11, 12, 15-18, 20-22, 29, 30, 34, 40-43

UMVIM United Methodist Volunteers in Mission, Rev. Thomas L. Curtis, Southeast Jurisdiction Coordinator, Room 412, 159 Forrest Ave., Atlanta, GA 30308. 42, 45

UPCUSA United Presbyterian Church in the USA, Volunteers in Mission, Room 1126, 475 Riverside Drive, New York, NY 10027. 7, 8, 11-19, 21, 25-28, 30-32, 35-37, 39, 40, 42

USSC United States SERVAS Committee, Inc., Norma Rosenberg, National Chairperson, 11 John St., Room 406, New York, NY 10038. 52

VC The Volunteer Corps, Mary Teresa Rogers, Coordinator, 815 Second Ave., New York, NY 10017. 52

VESS Volunteers for Educational and Social Service, Bertha Lopez Paskoe, Administrative Assistant, texas Catholic Conference, 3001 South Congress Ave., Austin, TX 78704. 22, 32, 37, 42

WADD Wasco Association for the developmentally Disabled, Inc., Thomas C. Stevens, Director, P.O. Box 464, 1033 F. St., Wasco, CA 93280. 29, 40

WCSC Workers' Community Service Center, Carol Haddad, Director, 5324 San Pablo Ave., Oakland, CA 94608. 19

WIP World Issues Program of the School for International Training, Shaun Bennet, Director, School for International Training, Brattleboro, VT 05301. 12, 13, 22, 23, 27, 28, 33, 36, 47, 48

WMLA Western Massachusetts Labor Action, Janet Louden, Volunteer Coordinator, 11 Spring St., Adams, MA 01220. 35

W.PA/W.VA-LCA Holy Trinity Community Center, Rev. W. Martin Peterhaensel, Executive Director, 643 W. 17th St., Erie, PA 16502. 8, 9 18, 21, 46

WPI Writers in the Public Interest, Ron Cross, Coordinator, 17 Myrtle Drive, Great Neck, NY 11021. 52

WSFASA Wright State Financial Aid Student Association, Mike Kent, Volunteer Coordinator, 1211 Third Ave., Dayton, OH 45402. 35

WSWA/CHA Western Service Workers Association/California Homemakers Association, Dr. Mark Levine, Regional Volunteer Coordinator, 5322 San Pablo Ave., Oakland, CA 94608. 34

WV The Winant and Clayton Volunteers, Inc., Nicki Nicol, President, 815 Second Ave., New York, NY 10017. 44

YMCA National Board Young Men's Christian Association, Richard A. Stirling, Director, Overseas Personnel Programs, National Board YMCA, 291 Broadway, New York, NY 10007. 23, 38

YMCA:W/A YMCA World Ambassadors, Cliff Drury, Coordinator, State YMCA of Michigan, 301 W. Lenawee St., Lansing, MI 48914. 23, 47, 48

THE RESPONSE

Volunteer Opportunities

1979

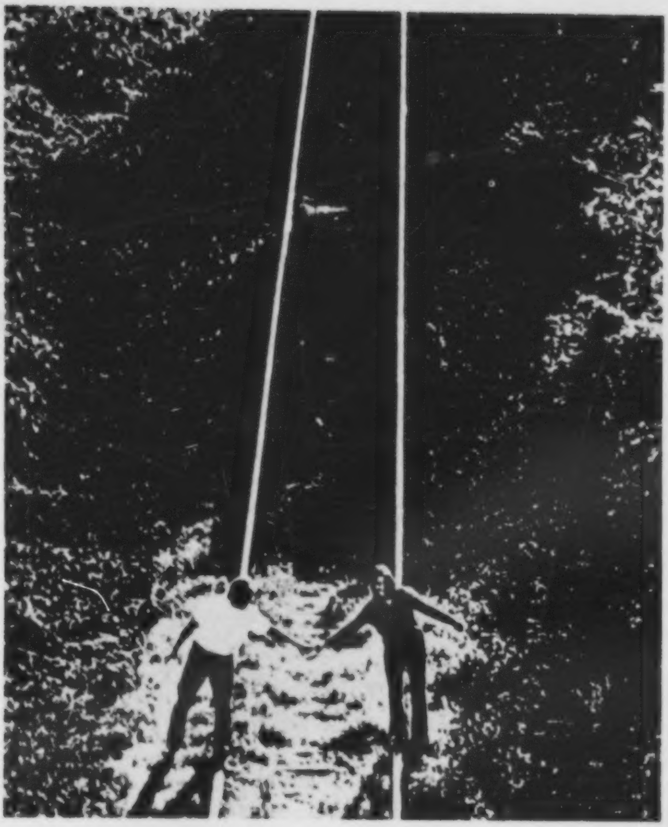
International Liaison

U.S. Catholic Coordinating Center for Lay Volunteer Ministries

Affiliate of the United States Catholic Conference

1234 Massachusetts Avenue N.W., Washington, D.C. 20005

(202) 638-4197



MISSION

"The word of the Lord came to me,
and his message was: I claimed you for my own . . .
I set you apart for myself . . .
I have a mission for you to undertake, a message to entrust to you. Have no human fears;
am I not at your side to protect you from harm?
. . . I have inspired your lips with utterance.
With a word you shall build them up and plant them anew."

Jeremiah 1: 4-10

THE RESPONSE

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Ministries
Mission Areas U.S.A. - Foreign
Mission Centers for Study
Organizations
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THE RESPONSE is a directory of mission agencies in the United States and in other countries around the world. The booklet is designed to help concerned and inquiring persons to avenues of service within and through the Church in a variety of ministries and occupations which will help them to direct their lives in the continuous search for the fullest and most meaningful way to express their Christian faith. The **Table of Contents** and the categorical **Index** should enable the reader to find specific information easily.

The section on Contact Procedure will be a guide for writing or calling the various mission agencies. The reader should study this section carefully. For additional information, write or call the Office of the INTERNATIONAL LIAISON.

INTERNATIONAL LIAISON

The International Liaison, the U.S. Catholic Coordinating Center for Lay Volunteer Ministries, coordinates and facilitates the efforts of lay volunteer organizations for the U.S. Catholic Church. The nature of the work is within the context of the Christian mission, specifically Catholic with interdenominational cooperation.

The International Liaison is an affiliate of the United States Catholic Conference and is co-sponsored by the various mission agencies served. The International Liaison has established communications with dioceses throughout the United States in an effort to present the needs and opportunities for service to the laity of this country.

Every year doctors, nurses, catechists, printers, carpenters, co-op and credit union organizers, community developers, environmental specialists, agronomists, secretaries, and many other dedicated persons give of their faith and their talents to people who are in need. The International Liaison is not a receiving agency or a sending agency in the strict sense. The Office serves as a center of reference, a switch-board operation between various agencies and the personnel they endeavor to recruit.

The International Liaison was founded by Rev. George L. Mader in the Archdiocese of Newark, New Jersey, in June of 1963. The Office expanded in 1973 to extend its services to the laity of every diocese. In June of 1975 the Liaison became incorporated as the national Catholic clearing center for the lay volunteer ministries.
In November of 1976 the International Liaison Coalition was formed. Membership in the Coalition is based upon the various roles that missions and agencies have in relationship to the many and varied forms of volunteer lay ministry. These include sending agencies, that is, those who recruit and place, and receiving agencies, those which have specific projects. In addition to these sending and receiving missions, such offices as Campus Ministry, Vocations, Diocesan Missions, the Propagation of the Faith, **etc.**, are members of the International Liaison Coalition.

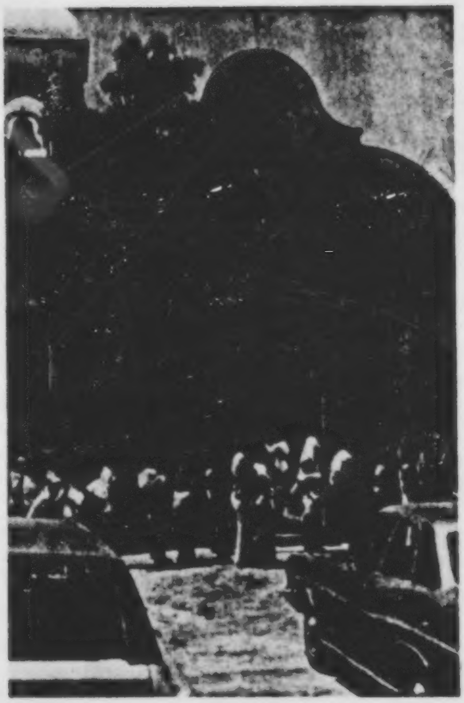
THE WORD IN THE WORLD....

Vatican Council II has pointed to the lay person
in no uncertain terms, and to his/her role
in the missionary activity of the Church.
The concept of the laity going to the missions,
the so-called lay missioners, has always been with us.
Men and women were effective collaborators
of the Apostles in the primitive Apostolic Church; they were
the ones who contributed towards the extension
of the evangelical message to the whole Greco-Roman world.

The necessity of this new, or "not-so-new" type
of apostle is evident if we want the Church
to realize Christian life in its fullness.
The ministries that the laity engage in are forms
of Gospel Proclamation.
The lay missioner sees a specific ministry as the action
of his/her faith. Lay missioners share their faith
through their skills and lifestyle.
The WORD is proclaimed, not so much from the pulpit,
as it is through a generous heart and a helping hand.

It is the experience of the International Liaison
that dedicated laity from all over the United States
are seeking opportunities
to serve the mission of the Gospel.

THROUGH VOLUNTEER SERVICE



"Peace I bequeath to you.
My peace I give you,
a peace the world
cannot give. . .
Do not let your hearts
be troubled or afraid

. . . .

Come now, let us go."
St. John 14:27, 31

CONTACT PROCEDURE

The following procedure is recommended:

A. Telephone the office of the agency if possible. Mail is not always reliable.

B. For foreign placement contacts, allow several weeks for communications. Use stateside contacts whenever possible.

C. Include all pertinent information in initial correspondence: educational background, term of service available, work experience, age, two references, **etc.**

D. In fairness to the mission agencies under consideration, the applicant should

   1. Indicate that he/she has come to know of the agency through The RESPONSE;
   2. Indicate whether he/she has contacted more than one agency or project;
   3. Indicate immediately his/her acceptance by another agency;
   4. Indicate loss of interest in a given agency or project.

Many wheels go into motion when contacts are made with the International Liaison, and the possibility of an applicant's placement is made to various agencies at the same times; therefore, it is imperative that the applicant consider this prior to firming up a commitment to a specific mission or project.

Since the International Liaison office is an on-going resource channel for various volunteer missions and agencies, it is quite possible that sources of placement other than those listed in The RESPONSE will be available, or that projects listed will have been completed and jobs will have been filled, or that organizations will have phased out. Members of the staff of the International Liaison are available to offer assistance in meeting placement procedures and in establishing proper lines of communications in order to expedite participation in the various lay volunteer ministries.

"You will be
My witnesses. . .
to the end
of the earth."
Acts 1:8

VOLUNTEER OPPORTUNITIES

(A-1) ABANDONED ELDERLY RELIEF VOLUNTEER CORPS

3827 34th Street, Mount Rainier, Maryland 20822
(301) 779-3200

Personnel Requested: Doctors, Nurses, Social Workers, Fund Raisers, Secretaries/Clerical Workers, Media Specialists, Cooks, Handymen, Carpenters, Recreation Specialists, Community Organizers, Housekeepers, Mental Health Workers, Senior Citizen Aides, Drivers, Maintenance Men

Area: Washington, D.C., Maryland, Virginia, Southeast States

General Information: Age 21 and above. Term of service 2-5 years. Male/Female. Single/Married. Room and board provided. Transportation and small stipend negotiable. The only real qualifications are love, respect and caring for the abandoned elderly who have been put aside by their families and forgotten. Non-denominational.

Contact: Brother Augustine Vigue, Founder and President

(A-2) APOSTOLIC VOLUNTEERS

4225 West 25th Street, Chicago, Illinois 60623
(312) 521-6611

Personnel Requested: Positions in schools (K through 16): Teachers, Teacher Aides, Para-professionals, Learning Center Coordinators, Special Education Teachers. In parishes, Pastoral Ministers, Music and Liturgy Ministers, Youth Ministers, Religious Education Coordinators, Clerical Workers, a limited number of Social Workers and Health Care positions.

Area: More than 100 locations throughout the United States, in 29 states. Center-city poverty areas and suburban areas, as well as small rural towns

General Information: Age 20 and over. Male/Female. Single/without dependents. Catholic. Two years of college or equivalent work experience. Mature. Adaptable -- able to live and work with others. Room and board, and $125.00 mo. provided. Health Insurance. Vacations correspond to school holidays. Ten month term (August 15 to early June). A second year is negotiable. Transportation is not covered. Dominican community life supports ministry for women; men are guaranteed personal support and professional stimulation in healthy rectory communities affiliated with the Apostolic Volunteers. Strong Christian emphasis.

Contact: Sister Mary Kremer, O.P., Director

(B-1) **BETTERWAY, INC.**
700 Middle Avenue, Elyria, Ohio 44035 (216) 323-2431

Personnel Requested: Social Workers, House Parents, Teachers, Secretaries, Restaurant Workers, Recreation Workers
Area: Programs are in Elyria, 20 miles west of Cleveland
General Information: Age 18 years and over. Betterway, Inc. operates The Search Home for Girls, Beacon Home for Boys, Ark Home for Young Boys, and the Bridge Home for Young Men, ages 12 to 25. All residents of the homes have been in trouble in courts; some of them have been in facilities for delinquents. There is an alternative school for 9th and 10th graders during the school year, plus a religious and general gift shop and a delicatessen restaurant. Betterway, Inc. furnishes room and board. A stipend and insurance can be negotiated if needed. There is need for summer and year-round volunteers. People must be outgoing and have hobbies, as well as a high level of energy. Send for Betterway's newspaper, free subscription.
Contact: Tom Peters, Director and Founder

> *"Once again He sends them into every town and place where He will come" (LUKE 10:1) so that they may show that they are co-workers in the various forms and modes of the one Apostolate of the Church, which must be constantly adapted to the new needs of our times. . ."*
> *DECREE ON THE APOSTOLATE AND THE LAITY*
> *Vatican Council II*

(C-1) **CARITAS - BANGLADESH**
2 Outer Circular Road, Shantibagh, P.O. Box 994
Dacca 17, Bangladesh

Personnel Requested: Community Health Advisor, Irrigation Engineer, Agronomist, Technical Instructor, Director of Education, Automobile Mechanics, etc.
Area: Urban and rural communities under 6 Regional Offices at Barisal, Chittagong, Dacca/Mymensingh, Dinajpur, Khulna, and Rajshahi, Bangladesh
General Information: Caritas is a non-profit charitable society which aims at alleviating human suffering and distress, and promoting human development in all forms: spiritual, moral, physical and social in conformity with Catholic principles. The organization aims at promoting long-term benefits of the people through specific projects: community health and development programs, family and child welfare programs, educational and technical training, leadership and cooperative education courses, fishery and handicrafts development.
Contact: Mr. Jeffery S. Pereira, Executive Director

(C-2) **CATHOLIC MEDICAL MISSION BOARD**
10 West 17th Street, New York, N.Y. 10011 (212) 242-7757

Personnel Requested: Physicians, Dentists, Registered Nurses
Areas: Africa, Caribbean, Latin America, Oceania
General Information: Age 21 and above. Term of service 4 weeks to 2 years or more. Physicians must be graduates of approved medical schools. Degree/Certification/License required. Experience necessary. Interdenominational. Placement policies regarding term of service, living accomodations, transportation, living with or without dependents, and other details vary according to assignment.
Contact: Mr. Vincent J. Hogan

(C-3) **CENTRO ASISTENCIAL SAN ANTONIO AB. CENTRO DE SALUD**
San Antonio Las Cuevas, Chisec, A.V.
Guatemala, Central America

Personnel Requested: Doctors, Dentists, Nurses (RN and LPN)
Area: Diocese of Verapaz, Guatemala
General Information: Age 21 and above. Term of service varied. Degree/Certification/License required. Work among Maya Indians in extremely poor and remote area of diocese.
Contact: Rev. Imre Jose Fekete, M.D.

(C-4) **CHRISTIAN SERVICE PROGRAM**
Diocese of Jefferson City, MO
P.O. Box 417, Jefferson City, Missouri 65101 (314) 635-9127

Personnel Requested: Teachers, Nurses, Catechists, Census/Parish Workers, Social Workers, Secretaries, Youth Workers, Medical Technicians
Area: Diocese of Jefferson City, Missouri

General Information: Age 19 and over. Male/Female. Single/Married. With/without dependents. High school graduates. Term of service, 1 year to 3 years. Insurance. Stipend. Living quarters in community house, rectory or convent. Opportunities for local involvement. Program to help volunteers to move into careers with the Church.
Contact: Mr. Fred J. Buerman, Director

(C-5) **CORPS OF PASSIONIST VOLUNTEERS**
Passionist Community, 5700 N. Harlem Avenue
Chicago, Illinois 60631 (312) 631-6336

Personnel Requested: Catechists/Parish Workers, Carpenters, Cement Layers, Handymen
Area: Baja California, Mexico
General Information: Male. Single. Age 18 to 25. High school seniors or college students. Summer: July 1 to August 1.
Contact: Rev. Joseph R. Moons, C.P., Director

(C-6) **CROSS-LINES COOPERATIVE COUNCIL, INC.**
1620 South 37th Street, Kansas City, Kansas 66106
(913) 432-5497

Personnel Requested: Teachers, Social Workers, Legal Personnel, Medical Personnel, Youth Workers, Skilled Tradespeople
Area: Urban Kansas City
General Information: Age 20 years and over. Male/Female, Single/Married. Term of service 2 years. Immediate Openings. Interfaith. Stipend negotiable. Degree/Certification required for professional categories. Opportunity to provide direct services for persons in emergency situations or to work in advocate/research role for social change. Short term opportunity: June 3 - July 27 to provide recreation program for inner-city youth.
Contact: Donald Bakely, Executive Director
Myron Dice, Program Director

(C-7) **CSC - ACT PROGRAM**
St. Mary's Convent, Notre Dame, Indiana 46556
(219) 284-4659

Personnel Requested: Teachers, Nurses, Pastoral Ministers, Social Workers. Clerical Workers

Areas: Throughout the United States, and in inner-city poverty areas and rural towns of Brazil

General Information: Age 20 and over. Female. Single. Term of service for U.S. missions, 10 months (mid-August to June). For Brazil, 2 year commitment. Community living situation. Volunteer salary. Room and board. Health insurance. Travel expenses provided. Opportunity to share in the apostolate of the Sisters of the Holy Cross as a lay associate. Young women must have completed college work or have had equivalent education in the field in which they wish to work.

Contact: Sister M. Madeline Therese, C.S.C., Coordinator

(D-1) **THE DAVID SCHOOL**
Box 1, David, Kentucky 41616 (606) 886-8374

Personnel Requested: Teachers, Group Home Workers, Maintenance Worker, Carpenter, Shop Instructor, Auto Mechanic

Area: Small town, southeastern Kentucky

General Information: Age 21 and over. Male/Female. College graduates preferred. Term of service 1 or 2 years. Room and board. Stipend. Insurance. Interdenominational.

Contact: Daniel Greene, Director

(D-2) **DIOCESAN LAY VOLUNTEERS** - Diocese of Salt Lake City
333 East South Temple, Salt Lake City, Utah 84111
(801) 328-8641

Personnel Requested: Teachers, Catechists, Parish Workers, Religious Education Coordinators, Youth Ministers, Social Workers

Area: Primarily small rural areas; mission (no priest) parishes

General Information: Age 21 and over. Single. Male/Female. College graduates. Term of service 1 year. $100.00 p/mo. Insurance. Room and board, Community quarters. Vacation. Transportation. Opportunity for local involvement. First concern is that the volunteer be eager to bring a Christian witness to a basically non-Christian area; maturity of Faith must be a base for all other aspects of the person's work.

Contact: Rev. Louis A. Fischer, Director

(D-3) **DIOCESAN MISSIONERS** - Diocese of Jackson, MS
P.O. Box 2248, Jackson, Mississippi 39205 (601) 948-6551

Personnel Requested: Teachers, Catechists, Religious Education Coordinators, Social Workers, Special Education Teachers, Parish Workers, Campus Ministers

Area: Urban and rural schools and parishes in Diocese of Jackson

General Information: Excellent opportunity for mission work in poverty areas, in urban and rural schools/parishes. Qualifications, salaries, benefits, terms of service vary with assignments.

Contact: Most Rev. Joseph B. Brunini, D.D.

(D-4) **DIOCESAN SCHOOL OFFICE - TEACHER RECRUITMENT PROGRAM**
Diocese of Springfield-Cape Girardeau
200 McDaniel Building, Springfield, Missouri 65806
(417) 866-0841

Personnel Requested: Teachers

Area: Majority of schools are in small rural communities in the Diocese of Springfield-Cape Girardeau.

General Information: Catholics make up a very small minority of the total population of the area; it is a mission diocese. By March 1, Office has a general knowledge of school openings.

Contact: Rev. Edward M. Eftink, Superintendent of Schools

(D-5) **DIOCESE OF MADISON - LAY MISSION CENTER, LTD.**
104 E. Harriet Street, Darlington, Wisconsin 53530
(608) 776-2251

General Information: A Lay Sending Organization affiliated with the Diocese of Madison and dealing with personnel from the State of Wisconsin. The purpose of the Office is to recruit and screen and place personnel with marketable skills which are needed within the Church in the United States and in foreign countries, to keep in contact with the volunteers, aiding them in any way possible, and to debrief the volunteers and assist them in finding work when they return to their former areas.

Contact: Rev. Frederick M. Jones, Diocesan Director

(D-7) **DIVINE WORD SECONDARY SCHOOL**
Box 483, Madang, Papua, New Guinea

Personnel Requested: Teachers

General Information: Age 21-35. Male preferred. Single. Term of service 3 years. Room and board. Stipend. Insurance. Transportation. Interdenominational. Certification necessary for secondary school teachers.

Contact: Rev. Kenneth Feehan, S.V.D.

(D-6) **DOMINICAN APOSTOLIC VOLUNTEERS**
Mount Saint Dominic, Caldwell, New Jersey 07006
(201) 226-1472; (201) 889-5813

Personnel Requested: Teachers, Para-professional School Personnel, Youth Ministers, Recreation Workers, Parish Ministers, Clerical and Secretarial Workers, Nurses (RN and LPN), Counselors, Domestic Helpers

Areas: City and suburban areas of Bridgeport, Connecticut, and northern New Jersey; country areas of Bayou La Batre, Alabama; and Abaco, Is. in the Bahamas

General Information: Age 20 years and over. Two years of college or work experience. Adaptability in living and working with others. Term of service 10 months (school year) with vacations/holidays corresponding to school calendar. Room and board. $100.00 a month stipend. Hospitalization and Accident Insurance provided. Volunteer pays all travel expenses. Placement process takes as long as 2-3 months; and orientation program is conducted during the month of May.

Contact: Sister Jo Mascera, Co-ordinator for Program

(E-1) **EAST COAST MIGRANT HEALTH PROJECT**
1234 Massachusetts Avenue, N.W., Washington, D.C. 20005
(202) 347-7377

Personnel Requested: Primary Health Care Deliverers such as Nurse Practitioners, Physician Assistants, Health Associates, Public Health Nurses, Health Educators, Nutritionists, Social Service Workers

Areas: ECMHP operates in New York, Delaware, Maryland, Virginia, North and South Carolina, and Florida.

General Information: Age 20 to 50. One Year Term, renewable, minimum of 90 days. Spanish bi-lingual facility in the high impact areas. Car is a must; mileage paid. Volunteers with marketable skills are welcome. Salary fixed by the current grant funding for the fiscal budget. Interdenominational.

Contact: Sister Margaret Ebbing, S.C., Assistant Administrator

(E-2) **ENGLISH TEACHING MISSION**
Our Lady of the Lake Catholic Church, 2 Chome
Banba, Otsushi, Shigaken 520 Japan
0775-22-3987

Personnel Requested: Teachers of English, Parish Workers

Area: Otsu, Shigaken, near Kyoto City, Japan

General Information: Age 20 - 40 years. Single. Without dependents. College graduates preferred. Two-year term. Insurance. Stipend salary. Two weeks vacation. Driver's license. Convent living quarters for women; rectory for men. Teaching English conversation to adults and children is primary work; helping to develop parish programs, also important.

Contact: Rev. Peter Susumu Yamada

(E-3) **ERIE DIOCESAN MISSION OFFICE**
259 West Ninth Street, Erie, Pennsylvania 16501 (814) 459-3003

Personnel Requested: Argriculturalists, Nurses, Community Organizers

Area: Yucatan, Mexico

General Information: Male/Female. Single/Married, with/without dependents. Travel expenses. Salary stipend. Insurance. Term of service 2-5 years. Spanish language necessary.

Contact: Rev. Jan. Olowin, Director

(F-1) **FRONTIER APOSTOLATE**
College Road, Prince George
British Columbia, Canada V2N 2K6 (604) 964-4559

Personnel Requested: Teachers (qualified secondary or primary), Youth Workers, Cooks, Housekeepers, Janitors, Bus Drivers, Maintenance Workers

Area: British Columbia

General Information: Age 20-60. Male/Female. Single/Married. Some families. Term of service 2 years (exceptions made for teachers). Room, board and stipend. Insurance. Transportation depends upon placement. Interdenominational.

Contact: Rev. Vincent LaPlante, O.M.I., Director

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(G-1) **GLENMARY HOME MISSIONERS**
Box 46404, Cincinnati, Ohio 45246 (513) 874-8900

Personnel Requested: Nurses, Mission Parish Workers
Area: Appalachia
General Information: Summer programs in mission areas. Program mainly geared toward young men open to a Church related career, but there are some openings for nurses and other short-term volunteers.
Contact: Rev. Wayne Swatlowski

(G-2) **GOOD SHEPHERD MOVEMENT**
Kawaramachi Sanjo, Agaru, Kyoto 604, Japan
Kyoto 075-211-9341
Personnel Requested: English Conversation Teachers
Area: Tokyo, Kyoto, and Niigata, Japan
General Information: Age 22 to 30. Single. Female. College degree or equivalent job experience. Living expenses. Health insurance. Transportation from Japan to home. Term of service one year contract.
Contact: Rev. Graham McDonnell, Associate Director

(G-3) **GROUP SEVEN**
Route 1, Brasstown, North Carolina 28902 (704) 837-7060

Personnel Requested: Teachers, Nurses, Catechists, Social Workers, Dentists, Doctors, Skilled Tradespeople, Professionals and Semi-professionals
Area: Glenmary Home Missions in rural United States (primarily Appalachia and deep South), Kentucky, Virginia, North Carolina, Georgia, Mississippi, **etc.**
General Information: Age 21 and over. Male/Female. Single/Married/Religious. With/without dependents. Term of service 2 years minimum commitment. (The idea in mind is that personnel will make homes in assigned areas.) Group 7ers work in present occupation and are self-supporting. Private living quarters. **Mission and Ministry**: "to witness through daily life and activities the Good News at work, in mission parish and community at large," and "to serve the whole person through ordinary means in rural U.S.A." (Group Seven Constitution)
Contact: Bob Fink, Director

(H-1) **HOLY REDEEMER MISSION—APPALACHIAN APOSTOLATE**
Route 1, Box 6-A, Vanceburg, Kentucky 41179
(606) 796-3052; (606) 796-2767

Personnel Requested: Catechists, Co-op Manager, Mechanic

Area: Rugged mountainous area of Kentucky ("Hollers")

General Information: Male/Female. Yearly and summer programs. Opportunities for local involvement. Openings for Lay or Religious, Eucharistic Community. All household duties shared. Insurance. Catechists teach in Bible School. "Mercy Wheels." Appalachian Industries: Furniture, Pottery.

Contact: Rev. Patrick O'Donnell, Pastor and Administrator

(I-1) **INNISFREE VILLAGE**
Route 2, Box 506, Crozet, Virginia 22932 (804) 823-5400

Personnel Requested: Co-workers in a community of 50 people on a 400 acre farm, with responsibilities of house parenting and homemaking, as well as working in wood shop, garden, bakery, and weaving shop.

Area: In the foothills of the Blue Ridge Mountains, 17 miles west of Charlottesville, Virginia

General Information: Room and board. Medical and dental expenses. Moderate allowance provided. Term of service 1 year minimum. Some experience working with the mentally handicapped perferred.

Contact: Heinz Kramp, Director; Carolyn Ohle, Coordinator.

(J-1) **JESUIT VOLUNTEER CORPS EAST**
18th and Thompson Streets, Philadelphia, Pennsylvania 19121
(215) 232-0300

Personnel Requested: Community Organizers, Teachers, Outreach Workers, Research Workers, Youth Workers, Social Workers, Fund Raisers, Lawyers, Counselors, Nurses, Parish Workers, Environmental Specialists, Secretaries, Maintenance-Handypersons

Areas: Urban and Appalachian areas: North Carolina, Maryland, Washington, D.C., West Virginia, Pennsylvania, Delaware, New Jersey, New York, New England states.

General Information: Age 21 or over. Single/Married. Male/Female. Without dependents. Term of service 1 year. Insurance. Stipend. Room and board. Community House quarters. Transportation. Opportunity for local involvement. Social justice, Christian community, simple life-style. Interdenominational. August to August program. Orientation.

Contact: Rev. David J. Hinchen, S.J., Director

(J-2) **JESUIT VOLUNTEER CORPS MIDWEST**
3601 Whitman Avenue, Cleveland, Ohio 44113
(216) 281-5181

Personnel Requested: Teachers, Teacher Aides, Group Home Staff, Youth Workers, Parish Workers, Community Organizers, Lawyers, Secretaries, Counselors, Nurses, Maintenance Workers, Skid Row Workers

Areas: Chicago, Cleveland, Detroit, and smaller cities in Ohio, Illinois, and Michigan

General Information: Age 21 and over. Single. Male/Female. Without dependents. Term of service 1 year. August to August. Orientation. Room and board. Community quarters. Insurance. Social justice, Christian community, simple lifestyle. Opportunity for local involvement. Interdenominational.

Contact: Rev. Dennis T. Dillon, S.J., Director

(J-3) **JESUIT VOLUNTEER CORPS NORTHWEST**
P.O. Box 3928, Portland, Oregon 97208 (503) 228-2457

Personnel Requested: Teachers, Nurses, Parish Workers, Group Home Workers, Secretaries, Cooks, Maintenance Men, Construction Workers, Radio Workers, Mechanics, Electrical Engineers, Dorm Prefects, Community Organizers, Day Care Center Workers, Youth Workers, Religious Instruction Personnel

Areas: Cities of the Northwest: in Washington, Oregon, Idaho, Montana, and Alaska. Indian Reservations and Missions in Alaska

"When through one man a little more love and goodness, a little more light and truth, comes into the world, then that man's life has had meaning.

— Father Alfred Delp

General Information: Age 21 and over. Single/Married, without dependents. Male/Female. College degree required for teachers and nurses. Room and board. Community living; some private quarters. $30-$40 p/mo. Insurance. Transportation. Term of service 1 full year, beginning in August. Some work at a regular job to help support the mission. Needed: a Christian orientation, a sense of humor, a simple life style and grit.

Contact: Rev. Laurence L. Gooley, S.J., Director

(J-4) **JESUIT VOLUNTEER CORPS SOUTHWEST**

920 Peralta, Oakland, California 94607 (415) 465-5016

Personnel Requested: Teachers, Tutors, Community Organizers, Program Coordinators, Nurses, Group Home Workers, Campus Ministers, Parish Workers, Public Defenders/Workers for Alternative Sentencing, Prison Reform

Areas: Inner-cities and Indian Reservations of the Southwest: Fresno, Oakland, San Francisco, San Jose, Santa Ana, Santa Monica, and on the Navajo Reservation at St. Michaels/Fort Defiance, Arizona

General Information: The JVC: Southwest places lay volunteers in Christian based communities working with the poor and oppressed of our society. Actual hiring is done by the placement agency which meets all monetary needs of the volunteer. Term of service is generally one year. Applications are reviewed in the spring, and the actual work begins in mid-August at the JVC: Southwest Orientation. Room and board. Insurance. Transportation. $50.00 p/month stipend. Retreats and other support provided. Jesuit Volunteer Corps stresses the community living arrangement as a valuable support system for volunteers. Work is always with the poor. College education or work experience required.

Contact: Rev. Robert Marino, S.J., Director

(L-1) **LAOS, INC. ("THE WHOLE PEOPLE OF GOD"-*Greek*)**

4920 Piney Branch Road, N.W., Washington, D.C. 20011

(202) 723-8273

Personnel Requested: Physicians, Dentists, Nurses, Teachers, Community Organizers, Agriculturalists, Others

Areas: United States and limited overseas areas

General Information: An ecumenical volunteer placement agency which serves as a kind of clearing-house for mission and service projects with which we maintain contact. The goal of the organization is to promote human welfare and creative social change by (1) providing learning/working experiences for volunteers and (2) offering support to projects that are both meeting human need and confronting social injustice.

Contact: Ms. Edna Boone

(L-2) **LATIN AMERICAN MISSIONS** DIOCESE OF HELENA, MT
P.O. Box 1729, Helena, Montana 59601
(406) 442-5820

Personnel Requested: Nurse (RN or LPN) with teaching experience

Area: Guatemala - Santo Tomas la Union, Department Suchitepequez, and Santa Maria Visitacion, Department Solola

General Information: Major focus is on health education and preventative programs in hygiene, nutrition, and vaccination campaigns. Nurse will work with experienced volunteer for health education, patient services, and some patient referral. Work area includes semi-tropical coastal plain and rugged mountain terrain.

Contact: Rev. James H. Provost, Director

(L-3) **LAY MISSION-HELPERS ASSOCIATION**
1531 W. Ninth Street, Los Angeles, California 90015
(213) 388-8101

Personnel Requested: Teachers, Nurses, Pilots, Accountants, Secretaries, Carpenters, Agriculturalists, Mechanics

Area: Africa, Papua, New Guinea, Micronesia

General Information: Age 21 and over. Male/Female. Single/Married. With/without dependents. Three year term. Eight month training course in Los Angeles in conjunction with regular job employment.

Contact: Rev. Msgr. Lawrence O'Leary, Director

(L-4) **LAYPEOPLE IN AMARILLO MISSION PROGRAM (LAMP)**
Box 5644, Amarillo, Texas 79107
(806) 383-2243

Personnel Requested: Teachers, Catechists, Religious Education Coordinators

Area: West Texas - Diocese of Amarillo

General Information: Age 21 years and over. Male/Female. Single preferred. Volunteer Community House. College degree. Twelve hours of elementary education. Term of service 1 year, renewable. $80.00 p/mo. Parish community involvement.

Contact: Sister Nellie Rooney, LAMP Director

(M-1) MARIANIST VOLUNTARY SERVICE COMMUNITIES

360 E. 185th Street, Cleveland, Ohio 44119 (216) 481-1008

Personnel Requested: Teachers, Parish Ministers, Child Care Center Workers, Social Workers with the Elderly

Area: Urban areas in the Midwest

General Information: Age 21 to 75 years. Single/Married. Room and board. Basic living expenses and hospitalization are included in salary. Christian faith. Volunteers live a simple Christian life style in community with other volunteers. Interview with agency required before acceptance into program.

Contact: Brother Michael Reiling, S.M., Executive Director

(M-2) MARIST BROTHERS' HIGH SCHOOL

P.O. Box K, Pago Pago, American Samoa 96799
688-7545

Personnel Requested: Teachers for grades 9-12 boys' school

Area: Island of Tutuila, American Samoa

General Information: Ages 21-35. Single. Term of service 2 years. Stipend $50.00 p/mo. No insurance. Vacation opportunities with some financial assistance for travel according to agreement. Private living quarters in home built for Marist Volunteers, close to school. Opportunities for local involvement. Applicants must have college degree and must be practicing and convinced Catholics.

Contact: Brother Francis Eggleton, Principal

(M-3) MENNONITE VOLUNTARY SERVICE

Box 347, Newton, Kansas 67114
(316) 283-5100

Personnel Requested: Social Workers, Teachers, Youth Workers, Secretaries, Nurses, Day Care Workers, Carpenters, Mental Health Workers, Lawyers, Community Organizers, Recreation Workers, Environmentalists

Areas: Various locations in the United States

General Information: Age 18 and over. Single/Married. Female/Male. High school and college graduates. Short and long term projects. Community living quarters. Room, board, medical expenses, and transportation provided. Transportation defrayal for year or longer commitment. Opportunity for local involvement. Interdenominational.

Contact: M. Jean Krahn, Associate Director

(M-4) MOUNTAINVIEW DEVELOPMENT PROGRAM

Route 3, Clarkesville, Georgia 30523 (404) 754-4281

Personnel Requested: Farmers (Organic natural farming program). Persons interested in working with mentally retarded—with emphasis on outdoor work. Craft workers. Bakers.

Area: Appalachian Mountains of northeast Georgia.

General Information: Age 20 and over. Term of service 1 year or more. Single/Married. Experience not necessary. Room and board and all utilities. Staff car available for days off. $250.00 p/mo. Health insurance. Volunteers live and work on premises with mentally handicapped persons. Non-profit organization. Interdenominational.

Contact: David Shea, Assistant Director

(O-1) OBLATE MISSIONARIES—LAY VOLUNTEER MISSION PROGRAM

2104 Davenport Street, Omaha, Nebraska 68102
(402) 346-5800

Personnel Requested: Program (1)-Summer and year-round tutors, Catechists, Census/Parish Workers, Social Workers, Senior Citizen Aides, Construction Workers, Recreation Program Directors. Program (2)-Nursing Staff (LPN and RN) for both service planning and direct service. Program (3)-House Parents for Indian Children, ages 6 years to 18 years of age.

Areas: Various locations in Omaha, Nebraska; East St. Louis, Illinois; Sisseton, South Dakota; Orr, Minnesota

General Information: For Program (1), requests are for Males. Single. Ages 18-30 years. High school graduates. Term of service 8 weeks (summer, fall, winter). Stipend, Community House quarters. Room and board. Two-fold purpose: to offer young men the chance to experience Christian community, and to give those interested in religious commitment a chance to view the life firsthand.

For Program (2), nurses are needed to do inservice training and to direct service in a 120 bed nursing home, to help form a Christian community and growthful environment for residents. Regular pay scale for both RN and LPN staff. High rate of poverty in area; nursing home open to all races, religions.

Program (3), for Tekakwitha Children's Home, Sisseton, SD, requests are for married or single persons, ages 24 to 55, who are interested in working with Indian children as houseparents. Two years minimum commitment. Room and board. Stipend.

Contact: Brother Richard Calkins, O.M.I., Coordinator

(O-2) OFFICE OF THE PERSONNEL BOARD (LAY VOLUNTEERS)

Diocese of Kansas City/St. Joseph
P.O. Box 1037, Kansas City/St. Joseph, Missouri 64114
(816) 756-1850

Personnel Requested: Teachers, Community Workers

Area: Diocese of Kansas City/St. Joseph, Missouri

General Information: Age 20 years and over. Male/Female. Single/Married. Term of service 1 year commitment. Housing and $60.00 monthly food allotment. $75.00p/mo. Hospitalization. Social Security expenses. Transportation. Vacation transportation. Local orientation program. Interdenominational.

Contact: Marie Rozier, Director

(O-3) OPPORTUNITY FOR LAY INVOLVEMENT IN THE MARIANA ISLANDS (AYUDU)

Diocese of Agana, Guam, P.O. Box 125, Agana, Guam 96910
472-6116

Personnel Requested:Teachers, Catechists, Parish Workers, Maintenance Workers, Secretaries, Accountants, Journalist/Writer/Reporter for diocesan newspaper

Area: Guam and the Northern Mariana Islands—American Territory

General Information: Age 21 and over. Single/Married. Male/Female. Professional/Non-professional. Term of service 2 years. Room and board. $100 p/mo. Insurance. Two weeks vacation. Transportation. Interdenominational. Not all schools are in deprived areas; volunteers should check on this prior to making commitment.

Contact: Sister Ellen Jean Klein, SSND, Superintendent of Catholic Schools

(O-4) OUR LADY OF MOUNT CARMEL SCHOOL

P.O. Box 6, Saipan, Mariana Islands 96950 6184

Personnel Requested: Teachers (Elementary, Junior High School, Senior High School - English, Social Studies, Mathematics)

Area: Saipan, Mariana Islands

General Information: Age 22 and over. Male/Female. Single/Married. Term of service 2 years. $300.00 p/mo. Stipend. No insurance. Summer vacation. No room and board provided. Transportation defrayal.

Contact: William N. Corey, Principal

(P-1) **PAL PROJECTS AND HAND OF HELP PROGRAM**
Benedictine Monastery, Pecos, New Mexico 87552
(505) 757-6415

Personnel Requested: Teachers, Youth Workers, Social Workers, Medical Technicians, Secretaries, Construction Workers

Area: Remote villages and orphanages in Mexico

General Information: Age 21 years and over. Male/Female. Single/Married. With/without dependents. Spanish language. Term of service 1 year, or summer. High school graduates and handicapped persons may participate in program. Opportunity for local involvement. Interdenominational.

Contact: Rev. Albert Meyer, O.S.B.

(P-2) **PRISM**
6800 Marlboro Pike, S.E., Washington, D.C. 20008
(301) 420-1125

Personnel Requested: Youth Ministry Workers

Area: Archdiocese of Washington, D.C. Rural and urban areas in the Nation's Capital and adjacent counties in Maryland

General Information: Age 21 years and over. Male/Female. Catholic religion. Applicants must be willing to learn outreach techniques, and to work with teen agers within the framework of parish programs.

Contact: Brother Thomas Giumenta, C.S.C., Director

(Q-1) **QUEST**

8908 Riggs Road, Hyattsville, Maryland 20783 (301) 434-0038

Personnel Requested: Elementary Teachers, Nurses, Catechists, Social Workers, Medical Technicians, Census/Parish Workers, Recreation Leaders, Organizers for Community Enrichment Programs

Areas: Rural areas of New York and Kentucky

General Information: Ages 19 to 30 years. Female. Room and board. Young women will live with Sisters in community. Some stipends towards tuition. Interdenominational. Opportunity for local involvement. Spanish language and experience in working with Black and Hispanic Americans helpful. Term of service - summer and yearly programs.

Contact: Sister Rita Ricker, R.J.M., Director

(R-1) **RED CLOUD INDIAN SCHOOL**

Holy Rosary Mission, Pine Ridge, South Dakota 57770
(605) 867-5491

Personnel Requested: Teachers, Secretaries, Boys' Physical Education Coach

Area: Sioux Indian Reservation, South Dakota

General Information: Age 20 and over. Male/Female. Single. Term of service mid-August through May. College degrees for teachers. Room and board. $50.00 p/mo. negotiable. Private living quarters. Hospitalization. Two week vacation at Christmas.

Contact: Director of Personnel

(S-1) **SAINT BARBARA'S MEMORIAL NURSING HOME**

P.O. Box 86, Monongah, West Virginia 26554 (304) 534-3081

Personnel Requested: Nurses (RN and LPN), Nurses' Aides, Secretaries, Dieticians, Therapists

Area: Monongah, West Virginia, 100 mi. south of Pittsburgh, PA

General Information: Age 20 years and over. Term of service 1 year. Room and board. Private living quarters. Stipend. Insurance. Transportation. Applicant must have good health. Modern non-profit nursing home with 52 patient capacity.

Contact: Sister Mary Stephen, S.A.A., Administrator

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> *"The biggest disease today is not leprosy or tuberculosis, but rather the feeling of being unwanted, uncared for and deserted by everybody. The greatest evil is the lack of love and charity, the terrible indifference towards one's neighbor who lives at the roadside assaulted by exploitation, corruption, poverty and disease."*
>
> *Mother Teresa of Calcutta*

(S-2) **SAINT EUSTACHIUS SCHOOL**
210 West Fourth Street, Portageville, Missouri 63873
(314) 379-3535 or 379-3401

Personnel Requested: Teachers

Area: Rural agricultural town of southeast Missouri

General Information: Age 21-65. Male/Female. Single. College degree. Term of service 1 year, renewable. Room and board. Private quarters in Community House. $175.00 p/mo. salary for 10 months. Accident insurance. Hospitalization. Transportation. Vacations correspond with school program. Vacation travel to home town expenses paid.

Contact: Principal or Rev. Elmer Stolle

(S-3) **SAINT FRANCIS MISSION—PASTORAL MINISTRY**
St. Francis, South Dakota 57572 (605) 747-2296

Personnel Requested: Parish Workers, Religious Educators in CCD and in school programs. Family Catechists, Supervisor at boys' home

Area: Rosebud Sioux Reservation, 5 parish centers in southern South Dakota

General Information: Age 21 and over. Male/Female. Education requirements to fit job. Term of service from mid-August through May, with some summer opportunities. A commitment of 2 years or more is preferred because of cultural adjustment. Room and board. Monthly stipend. Health insurance.

Contact: Rev. J. Robert Hilbert, S.J., Superior

(S-4) **SAINT FRANCIS SCHOOL**
P.O. Box 68, Lumberton, New Mexico 87547 (505) 759-3300

Personnel Requested: Teachers, Coach, Maintenance Man, Bus Driver

Area: Isolated mountains of north-central New Mexico

General Information: Single/Married. College graduates - teachers. Term of service 1 year. Teaching with sisters in ungraded school program. Apache Indian and Spanish children. Male preferred for junior high school -- possibly helping as coach, driver, and maintenance man. Stipend $100.00 p/mo. Insurance. Room and board provided. Three months vacation.

Contact: Rev. Donnan Herbe, Pastor

(S-5) **ST. JOSEPH'S INDIAN SCHOOL**
Chamberlain, South Dakota 57325 (605) 734-5509

Personnel Requested: Teachers (Elementary and Special Education), Reading Specialists, Guidance Counselors, Nurses, Nurses' Aides, Dorm Child Care Workers

Area: Rural town in South Dakota

General Information: Age 21-50 years. Male/Female. Single/Married. Term of serive 1 year minimum; 2-3 years preferred. Room and board. $260.00 p/mo. stipend. Medical Insurance. Interdenominational.

Contact: Rev. Richard Johnston, Superintendent

(S-6) **SAINT KEVIN VICTORY CORPS**
35 Virginia Street, Boston, Massachusetts 02125 (617) 436-2771

Personnel Requested: Teachers, Nurses, Catechists, Census/Parish Workers, Youth Workers, Social Workers, Medical Technicians, Secretaries, Cooks, Tradespeople

Area: Parish in inner-city Boston

General Information: Age 18 and over. Male/Female. Single/Married. Without dependents. Term of service 1 year, 2-3 years preferred. Room and board, plus expenses. Private quarters in community house. Opportunity for involvement in parish and community activities. Knowledge of Spanish, French, Portuguese helpful, but not necessary. Salaried jobs to assist in resurrecting and evangelizing a new inner-city parish and school.

Contact: Rev. J. Joseph Kierce, P.P., Pastor

(S-7) **SAINT MARTIN'S CATHOLIC CHURCH AND SCHOOL**
5842 S. Princeton Avenue, Chicago, Illinois 60621
(312) 667-2100

Personnel Requested: Teachers, Nurses, Catechists, Census/Parish Workers, Social Workers, Secretaries, Doctors, Coaches

Area: Heart of Chicago's Southside Black ghetto

General Information: Age 18-75. Male/Female. Single/Married. With/without dependents. High school/college graduates. Room and board provided. Community quarters. Term of service 1 year minimum commitment. Opportunity for local involvement. Interdenominational.

Contact: Rev. John A. Jamnicky, Pastor

(S-8) SAINT MARY'S SCHOOL

New England, North Dakota 58647 (701) 579-4312

Personnel Requested: Teachers

Area: Rural ranching and farming community

General Information: Age 22-40. Single/Married. Male/Female. Ability to teach on secondary of elementary level. Boarding school for boys and girls. Room and board. Stipend. Insurance. Transportation.

Contact: Rev. Casimir Paluck, Superintendent

(S-9) SOCIETY OF THE HOLY CHILD JESUS

Dalton Center, 154 Waverly Place, New York, N.Y. 10014
(212) 243-1111

Personnel Requested: Teachers, Nurses

Areas: Nigeria, Ghana, Lesotho, Ethiopia; Santiago, Chile

General Information: Through a community created "to further the missionary apostolate of the Society of the Holy Child Jesus both overseas and within the American Province," the members engage in research and communication on behalf of the missions and missionaries, promotion of global awareness in schools and churches in America, and the development of a lay mission organization.

Contacts: Ms. Helen McDevitt and Sister Margaret Rogers, Co-directors

(S-10) SOCIETY OF OUR LADY OF THE MOST HOLY TRINITY

P.O. Box 7624, Kansas City, Missouri 64128 (816) 561-8849

Personnel Requested: Teachers, Education Personnel, Medical Personnel, Parish Workers, Peace and Justice Advocates

Areas: United States and Foreign Missions: Kansas City, East St. Louis, St. Louis, migrant workers' areas in Texas, Arizona (Hopi and Navajo Indians), New Mexico, Belize, Guatemala, Thailand, Philippines, and Italy

General Information: Age 18 and over. Male/Female. Single/Married, children welcome. High school education minimum. Laity, priests, seminarians, religious, lay deacons; people who want to give their lives to the service of Christ through community. Three year beginning commitment. Married couples work out individual needs with community. Single persons share community housing, food, transportation. Volunteers live and work among the world's poor and distressed. Opportunities for personal and spiritual growth provided. Spirituality of discipleship taught and lived. Training for specialized work available.

Contact: Rev. James Flanagan, Director

Wherever there are people in need of food and drink, clothing, housing, medicine, employment, education; wherever men lack the facilities necessary for living a truly human life or are afflicted with serious distress or illness, or suffer exile or imprisonment, there Christian charity should seek them out and find them, console them with great solicitude and help them with appropriate relief.

Decree on Apostolate of the Laity
Vatican II

(S-11) **SOUTHREACH—LAY VOLUNTEERS**
Diocese of Lafayette, P.O. Box 3387
Lafayette, Louisiana 70502 (318) 232-5150 Ext. 32

Personnel Requested: Teachers, Nurses, Doctors, Carpenters, Catechists, Day Camp Personnel, Lab Technicians
Areas: Gallup, New Mexico; areas of Mexico; Appalachia
General Information: Southreach serves as a referral and screening agency. No training is planned at this time, but some spiritual formation and mission orientation is in prospect.
Contact: Sister Mary Anne Owens, SSND, Director

(S-12) **SOUTHWEST VOLUNTEER APOSTOLATE**
P.O. Box 626, Gallup, New Mexico 87301 (505) 722-3366

Personnel Requested: Teachers, Handypersons, Youth Workers, Catechists, Census/Parish Workers
Areas: Diocese of Gallup, New Mexico and northern Arizona Missions on Navajo Reservation
General Information: Age 21 and over. Male/Female. Single/Married, with/without dependents. High school graduates. Term of service 1 year, beginning mid-June with a six-week summer program which is open also to those of age 18-21. Room and board. Health insurance for year-round volunteers. Work is mainly with Navajo Indians. Applicants must be orthodox Roman Catholics, solid in their Catholic faith and loyal to the magisterium of the Church. Regular sacramental and prayer life important. Those interested in improving political and social conditions of others to the exclusion of living and proclaiming the full Gospel of Jesus Christ which comes to us through the Catholic Church need not apply.
Contact: Ron Gori, Executive Director

> *"Give me a fish and I eat for a day; teach me to fish and I eat for a lifetime."*
>
> Anon.

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(S-13) **SPANISH APOSTOLATE—UNITAS**
48 Lawrence Street, Lowell, Massachusetts 01852
(617) 458-8793 or (617) 458-8794

Personnel Requested: Catechist, Census/Parish Workers, Youth Worker, Bilingual Secretary, Community Organizer, Camp Counselor for summer, especially for music and drama

Area: Old city in Massachusetts with large number of Spanish speaking immigrants

General Information: Male/Female, Single/Married, with or without dependents. Spanish language necessary. High school graduates/those with some college education - degree not necessary. Term of service 1 year, except for the regular summer assignment. Private quarters. Stipend. Insurance. Vacation. Opportunity for local involvement.

Contact: Carlos Perez, President; Julia Slates, Director

(T-1) **TEAMING IN MINISTRY OF EDUCATION (TIME)**
301 South 10th Street, Olivia, Minnesota 56277
(612) 523-2515

Personnel Requested: Teachers (K - 12), Religious Education Teachers, Youth Ministers, Classroom/Library Aides, Parish Workers, Secretaries, Clerical Workers, Residence Staff

Areas: Rural, urban, suburban, inner-city areas in Minnesota, Iowa, North Dakota, Washington, where the School Sisters of Notre Dame, Mankato, Minnesota, Province now minister.

General Information: Male/Female. Single/Married. Term of service 10 month school year, renewable up to 3 years. Two years of college, vocational or work experience past high school required. Certification needed for full time teachers. Room and board. Stipend monthly. Desire to form Christian community and to grow in faith life. Orientation program in August and volunteers' retreat in February provided by the SSND's.

Contact: Sister Rita Schwalbe, SSND, **TIME** Program Director

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"The educational mission is not exhausted by only one program or institution. By their complementary functions and their cooperative activities all programs and institutions contribute to the present realization of the Church's mission."

— TO TEACH AS JESUS DID
NCCB, Pastoral Message

(T-2) **TEKAKWITHA CHILDREN'S HOME**
Route 2, Sisseton, South Dakota 57262 (605) 698-3935

Personnel Requested: Psychologist, Social Worker, House Parents, Substitute House Parents, Maintenance Men, Cooks, Housekeepers

Area: Diocese of Sioux Falls, Sisseton, SD; Sisseton Wahpeton Tribe, Northeast South Dakota

General Information: Age 20-50. Married/Single/Professed Religious to work together as a team and faith community to care for Indian children, ages 6 to 18, in a positive parenting program. Term of service 2 years. Room and board; private living quarters. $325 p/mo. stipend.

Contact: Rev. Bob Reitmeier, O.M.I., Director

(U-1) **UNIVERSITY OF ASMARA**
Box 1220, Asmara, Ethiopia (113600)

Personnel Requested: Teachers for four-year college: Chemistry, Biology, Physics, Economics, Mathematics, Business Administration, Accounting, and Professional Librarians

Area: English-speaking section of Ethiopia

General Information: Male/Female. Age 30 to 65. Term of service 2 years. Experienced college teachers preferred. Master's degree or Ph.D for college teachers; B.S. in Library Science required for librarian. Room and board. Small stipend. Transportation.

Contact: Sister Anna Maria Soriolo, President

(V-1) **VERONA FATHERS' LAY MISSION PROGRAM**
2104 St. Michael Street, Cincinnati, Ohio 45204
(513) 921-1186

Personnel Requested: Doctors, Nurses, High School and College Teachers, Skilled Tradesmen; Agriculturalists, Builders, Catechists

Areas: Africa, Latin America - small towns, rural areas

General Information: Age 21 and over. Male/Female. Single/Married. Term of service 2 years. Degree or certificate required for professional positions. Transportation. Salaries, living quarters, **etc.**, depend upon individual mission.

Contact: Rev. Jack Degano, Director, Mission Secretariat

(V-2) **VOLUNTEER INTERNATIONAL CHRISTIAN SERVICE (VICS)**
2475 Queen Street East, Toronto, Ontario, M4E 1 HB
Canada (416) 691-3022

Personnel Requested: Teachers, Nurses, Doctors, Agricultural Engineers, Tradespeople, Other Categories.

Areas: East and West Africa, Caribbean, Latin America, Oceania

General Information: Age 21-60. Single/Married, without dependents. Room and board. Stipend. Insurance. Transportation. Term of service 2 years minimum. Christian orientation. Interdenominational.

Contract: Rev. Dermot Doran, C.S.Sp., Director of Personnel

(V-3) **VOLUNTEERS FOR EDUCATIONAL& SOCIAL SERVICES VESS)** 3001 South Congress Avenue, Austin, Texas 78704
(512) 447-6144

Personnel Requested: Teachers, Religious Education Coordinators. Social Workers

Area: Low-income Catholic School and parishes throughout Texas Catholic social service agencies of Texas

General Information: Age 20 and over. Single/Married, without dependents. Male/Female. College degrees for all teachers and religious education coordinators. Spanish language useful. Term of service 1 year. Furnished housing with private bedrooms. Food allowance $80.00 monthly stipend. Transportation. Medical insurance. In-service training.

Contact: Mr. Archie Gress

(V-4) **VOLUNTEERS IN DIOCESAN ACTION (VIDA)**
1001 N. Grand Avenue, Pueblo, Colorado 81003 (303) 544-1903

Personnel Requested: Teachers, Nurses, Medical Technicians, Parish Workers, Religious Education Coordinators
Area: Diocese of Pueblo - southern Colorado. (30 counties)
General Information: Age 21 and over. Single/Married. With/without dependents. Term of service 1 year. College degree required for teachers and nurses. Room and board. Private living quarters. $100.00 p/mo. stipend. Health insurance. Interdenominational.
Contact: Rev. Ervin J. Schmitt, Director

(V-5) **VOLUNTEER MINISTRIES COMMUNITY**
317 South Liberty Street, P.O. Box 824
Harrisonburg, Virginia 22801 (703) 433-8212

Personnel Requested: Visitors for the elderly, mentally retarded and physically handicapped persons, and for those who are imprisoned. Youth Ministers, Religious Activities Coordinators (Retreats, **etc.**), Community Organizers
Area: Upper Shenandoah Valley of Virginia
General Information: The program is for young men and women, ages 21-27, who volunteer 1-3 years of their lives to ministry and living in Christian community. Commitment to live simple life style. No professional skills required.
Contact: Rev. William E. LaFratta

FOREIGN LAY MISSIONARY ORGANIZATIONS

• GREAT BRITAIN • NETHERLANDS • IRELAND • FRANCE
• NEW ZEALAND •

THE VOLUNTEER MISSIONARY MOVEMENT (VMM)

Shenley Lane, London Colney, Herts AL2 1AR

The Voluntary Missionary Movement recruits, prepares and sends people with professional or technical qualifications and a Christian commitment to work for a minimum period of two years. Prior to departure for overseas ministries, volunteers attend a five-week residential preparation course.

Personnel Requested: Teachers, Nurses, Carpenters, Engineers, Farmers, Social Workers, Secretaries

Areas of work include Bangladesh, Borneo, Botswana, Cameroon, Egypt, Ghana, Kenya, Israel, Liberia, Malawi, Nigeria, Uganda, Sierra Leone, Sudan, Tanzania, Transkei, Upper Volta, and Zambia.

IRISH MISSIONARY UNION - SECRETARIAT OF THE NATIONAL MISSION COUNCIL OF IRELAND
54 Wellington Road, Dublin 4, Ireland

NEDERLANDESE MISSIERAAD (NMR)

Bureau Personele Assistentie, van Alkemadelaan 1, s-Gravenhage, Holland

The Bureau screens and selects those who offer themselves for church work in the developing countries, ascertaining motivation, spiritual and professional capabilities. Ministries include pastoral, social, medical, technical and agricultural works.

COMITE DE LIAISON DES ORGANISMES CRETIENS DE COOPERATION INTERNATIONALE

277 Rue Saint Jacques, 75005 Paris, France

CATHOLIC OVERSEAS VOLUNTEER SERVICE

Secretariat P.O. Box 780, Auckland 1, New Zealand

The organization recruits, screens, and assigns skilled lay persons for work in overseas missions.

MISSION INSTITUTES AND SEMINARS

CATHOLIC THEOLOGICAL UNION
World Mission Program
5401 South Cornell Street
Chicago, Illinois 60615

CHICAGO CLUSTER OF THEOLOGICAL SCHOOLS
1100 East 55th Street
Chicago, Illinois 60615

INSTITUTE OF MISSION STUDIES
Saint Paul University
223 Main Street
Ottawa, Canada K1S 1C4

INSTITUTE ON SUB-SAHARAN AFRICA
University of Notre Dame
Notre Dame, Indiana 46556

MARYKNOLL CENTER FOR MISSION STATUS
Maryknoll Post Office
Maryknoll, New York 10545

MARYKNOLL SISTERS' MISSION INSTITUTE
Maryknoll Post Office
Maryknoll, New York 10545

MEXICAN AMERICAN CULTURAL CENTER
3019 West French Place
P.O. Box 28185
San Antonio, Texas 78228

MISSIONARY INTERNSHIP PROGRAM
36200 Freedom Road
P.O. Box 475
Farmingham, Michigan 48024

NATIONAL COUNCIL OF CHURCHES (NCC)
OVERSEAS MINISTRIES
475 Riverside Drive
New York, New York 10027

OVERSEAS MINISTRIES STUDY CENTER
6315 Ocean Avenue
P.O. Box 2057
Ventnor, New Jersey 08406

SECRETARIAT FOR LATIN AMERICA—NCCB
P.O. Box 6066
Washington, D.C. 20005

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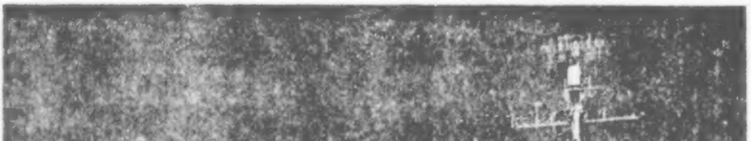

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Edwina Gateley
Shenley Lane, London Colney
Herts, AL2 1AR ENGLAND

> Listen, Israel. Yahweh our God is the one Yahweh. You shall love Yahweh your God with all your heart, with all your soul, with all your strength. Let these words I urge on you today be written on your heart. You shall repeat them to your children and say them over to them whether at rest in your house or walking abroad, at your lying down or at your rising . . .
>
> *Deuteronomy 6:4-8*

APR 12 1978

ACTION

April 10, 1978

Mr. Steve Quigley
Assistant Director
Jesuit Volunteer Corps: East
18 and Thompson Streets
Philadelphia, Pennsylvania 19121

Dear Mr. Quigley:

Thank you for your February 16 letter regarding the exemption of Peace Corps and VISTA volunteers from taxation on their living allowances, and the deferment granted to them from repayment of student loans during their volunteer service. It is my understanding that you wish to promote the extension of benefits received by our volunteers to volunteers in private organizations.

In fact, the benefits received by VISTA and Peace Corps volunteers are far more limited than one might think. Funds received by VISTAs are subject to the ordinary rules of the Internal Revenue Code, and State and local tax laws. VISTAs are also subject to the same coverage under FECA and Workmen's Compensation Laws as ordinary employees. Additionally, though the Director of ACTION has authority to exempt certain VISTA allowances from FICA as VISTAs are deemed to be Federal employees for that purpose, other allowances are subject to FICA.

As to Peace Corps Volunteers, Congress has determined that they should be placed in roughly the same tax position as other Americans working overseas. As a result, they are not taxed on those portions of their living allowances which cover basic necessities, such as food and lodging. However, they are taxed on entertainment, transportation and incidental expenses which are also figured into their allowances. Naturally, they are not subject to state or local taxes, and FICA is not withheld from their living allowance through statutory exemption, though it is withheld from their accrued readjustment allowance. Finally, they have FECA coverage, but are not eligible for Federal Workmen's Compensation since they are not considered employees for that purpose.

As to student loan deferrals, by the provisions of the National Defense Education Act, interest will not accrue on Federal student loans granted to Peace Corps or VISTA Volunteers, and installments need not be paid on such loans during their service for a period not to exceed three years.

In sum, the only real benefit, not currently available to the general public, which VISTAs and Peace Corps volunteers currently enjoy in the areas you have mentioned, is a modest loan deferral entitlement. To obtain it, you would have to convince Congress to extend this benefit to individuals who volunteer their services full-time through private organizations. I certainly think that this would be equitable.

At present there is no pending legislation to confer loan deferral entitlement on private volunteers. Legislation to grant such an entitlement would be the responsibility of the Subcommittee on Postsecondary Education of the House Committee on Education and Labor.

I hope this information has been helpful and I wish you the best of luck in your endeavor.

Sincerely,

Sam Brown

Sam Brown
Director

jesuit volunteer corps: east

February 16, 1978

Mr. Sam Brown
Action Agency
806 Connecticut Ave. NW Room M500
Washington, DC 20525

Dear Mr. Brown:

I am writing on behalf of the Jesuit Volunteer Corps and many similar volunteer service organizations. We are in a bit of a quandry and I am hoping you can assist us, or at least steer us in the proper directions.

The specific problems are two:
- deferral of college loans for members of full time volunteer organizations
- tax status (Regarding Federal, State, City,witholding, FICA, unemployment, workmen's comp) of members of full time volunteer organizations

I may be incorrect, but it is my understanding that volunteers in Action (Peace Corps and VISTA) enjoy both the privelige of automatic deferral of their higher education loans until compeation of volunteer service and receive living expenses that are not subject to the various taxes I listed above.

I would like to lobby a bit for those hundreds of volunteers in the United States and overseas who do not receive these benefits simply because they have chosen to work in nongovernment volunteer service organizations. A quick review of the membership of International Liaison and the Commission on Voluntary Service and Action shows the scope and amount of active, viable volunteer organizations in the U.S.

Given the nature of the work these volunteers do, the subsistence income they receive and the commitment to at least one year of full time work, there seems to be no reason why they should not receive the same privelige from the United States Government that the Peace Corps and VISTA volunteers have.

If you should require more information about these volunteer organizations that I am writing for, I suggest you contact Mr. Matt Paratore of the International Liaison office. His address is 1234 Massachusetts Ave., N.W., Washington, DC 20005 and the phone is (202) 638-4197. I have enclosed a brochure on the Jesuit Volunteer Corps to acquaint you with this organization.

How do you view this matter? What do you suggest I/we do? You are the first person I have /contacted, so this is ground zero. I would hate to get tangled in the bureaucratic/legislative maze that I fear thisrequest is headed toward. Any facilitation on your part will be gratefully appreciated.

Thanks for your time and consideration.

Steve Quigley / Assistant Director

EIGHTEENTH AND THOMPSON STREETS/PHILADELPHIA, PENNSYLVANIA 19121
(215) 232-0300

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Mr. **Ford**. Thank you. I am going to have to excuse myself, but Mr. Buchanan will cooperate with the questioning of both the panel members.

Mr. Paratore, on page 11, in the third full sentence of the second paragraph, your statement reads:

> For the remainder, which have religious sponsorship, the volunteers are providing secular services which are comparable to the services provided by Peace Corps and VISTA volunteers.

When you made your statement I noted that you said most of the volunteers are providing secular services. That sent a little red flag up for me because I have seen this issue raised so many times that I know that is exactly what will be in the minds of many people who might question it.

Further on, after discussing the *Tennessee* case, you describe your recommendation as if there were a requirement that the service would be secular in nature.

I am impressed that this is a worthy category in line with what we were discussing a little while ago. It should be considered, but I worry about inviting a discussion that does not take off on the merits of what we are trying to do, but takes off on the legalities.

It might be helpful if you consider some language being added to your amendment that did qualify the kind of service as secular and nonsectarian, just as we do in other provisions of law regarding grants and so on, with respect to educational functions. That would, I think, anticipate the first reaction which had not occurred to me until I heard you use the qualifier "most of," then it really hit me. Because as I look at 501(c)(3) exemptions, there are an awful lot of functions that qualify for that, and especially in my own part of the country, with activities now considered to be nonprofit, nonpublic activities, which have been precipitated by something less than the grandest design for humanity.

Quite frankly, I would not want to see us subsidizing school bus drivers instead of academies in my district. The fact is they are growing, and the obvious purpose of the people from their perspective was from the highest motivation. But it would not take very many incidents of that sort to occur before the whole thing would be shot down.

I think if we could anticipate that in advance and consider an amendment that makes it very clear that there would be no direct or indirect support for the sectarian activities of any group that qualifies, even though they are a 501(c)(3) exemption under the IRS Code, that would put my mind at ease and make it easier for me to justify it with other people.

I would think that is something you and your folks should look at. I am not asking you, at this point, for an amendment, but asking you to consider that kind of problem which will most certainly arise.

Mr. **Paratore**. I would certainly agree with that, Mr. Chairman. I think in proposing the suggested amendment that we have, we have carefully drawn it together very tightly to avoid just the kind of use which you are mentioning, but perhaps even a tighter look at it and a stronger look at it might be wise.

Mr. **Ford**. I am a product of Sunday school education myself, and I think it is a very desirable experience without regard to the success or lack of it which some of us show. But the same busdriver driving them to school during the week is driving them to Sunday school on the weekend, and we will have the people who went after Ray Blanton in Tennessee after us in no time at all if we are not very careful. My folks do not really get all that excited about these things. They believe in getting the job done without being burdened by all these technicalities. But we are burdened by them the minute we head toward that floor with a piece of legislation. I would hope that you would work with your people to put at least that one concern to rest in advance, and I will turn this over to Reverend Buchanan who can fully express himself without the exposure that I had, under the circumstances. If you will excuse me.

Mr. BUCHANAN [presiding]. Mr. Paratore, I would like to thank you for dealing so thoroughly with this first amendment question. I would endorse the suggestion made by the chairman. As you may be aware, I am one of a group of people who sometimes have first amendment hangups. I am very pleased you dealt so thoroughly with this in your testimony as well as in attempting to frame your amendment.

Certainly there is equity in what you ask. You make a very strong point that where a student has received a loan in the first place at a church-related institution, that is greater Federal assistance than you seek in resolving what appears to be an inequity for those who happen to be volunteers for sectarian or other private agencies.

I would endorse, however, the chairman's suggestion to tighten that.

Mr. PARATORE. Mr. Buchanan, may I ask our counsel to speak to that. Mr. Kurzman.

Mr. KURZMAN. We drafted it with the qualification that the deferment would only be extended to volunteers in 503(c) where the service was comparable to either Peace Corps or VISTA service. So some sort of the certification to the bank or college would have to be made that it was indeed a Peace Corps-VISTA-type service. That is why we applied the categories to the listings that both organizations have supplied to the subcommittee to show the great bulk of the services are in that category. Where they are not, that certification could not be made and the deferment would not be appropriate.

Mr. BUCHANAN. I want to thank you again for so thoroughly addressing this point both pragmatically and as a matter of principle; you have dealt with a matter of basic importance in trying to make sure that what you intend to create in equity does not in fact in the process raise constitutional questions.

Mr. Fritz, I think we had better put you in charge of GAO. I do not know how in the world you came up with all this information about OE.

Every time I get really impressed about something good the Government is doing, somebody comes along and clarifies it in a way that diminishes. The questions you have raised are very valid questions. I appreciate your including them. I think we will want to pursue some of the things you have pointed out.

I would like to ask you, if we determine that a loan of last resort should be available, what is your judgment as to who should make it, the State guaranty agencies, Sallie Mae, the Office of Education, or do you have an opinion?

Mr. **Fritz**. It would be a logical choice, probably the State agencies at this point, given their success. I have to cite the experience of the institution I represent. Given the State allotment levels, we can assist about 60 percent of the neediest students. The New York State loan program, the guaranteed student loan program, has been the second resort, and actually, Syracuse University serves as the last chance loan since we are a lender under the guaranteed student loan program. As an independent institution over the years, our friends and alumni have provided loan funds and we have decided to simplify the financial aid process both from our standpoint and the student's. If we do run into difficulty with some of the States that do not have ready capital, Syracuse University will step in. That is just about 25 percent of the students a year. But I think at this stage, we can say the guaranteed student loan when fully on board in all States, with agencies and if the program is allowed and matured with the careful and businesslike and also personal contact with the U.S. Office of Education, the program will work.

Mr. **Buchanan**. Let me ask you your judgment as to the relationship between making GSL available to any student and tuition pricing.

Mr. **Fritz**. I do not see that happening so much with loans as with the grant programs. As was commented on earlier, loans definitely are not the most popular form of aid, especially when the student has to borrow from more than one source and borrow the maximum amount. There are such things as overburdening students with loans and institutions are well aware of that. If there is more intense competition for the best qualified students, there will be little incentive, to raise tuitions. Availability of—I think—loans certainly will not be an incentive to increase our charges.

Mr. **Buchanan**. If either of you has any response you wish to make to any earlier questions or comment beyond your written statement, I will be pleased to hear it or receive it for the record. Otherwise, I will ask, without objection that there be included in the record, the publication "Student Loans, Alternatives for Reauthorization."

[The publication appears at the end of the hearing.]

Mr. **Buchanan**. If you have any further comments—I will be pleased to hear them.

All right, the meeting stands adjourned until tomorrow morning.

[Whereupon, at 1:35 p.m., the committee was adjourned, to reconvene Thursday, May 31, 1979, at 9:30 a.m.]

[Material submitted for inclusion in the record follows:]

STUDENT LOANS:
ALTERNATIVES FOR REAUTHORIZATION

(Papers presented to the NASFAA/ACE Invitational
Symposium on Student Loan Programs, April 10-11, 1978)

National Association of Student
Financial Aid Administrators

910 Seventeenth Street, N.W.
Washington, D.C. 20006

NASFAA is a non-profit corporation of institutions of postsecondary education and other individuals, agencies and students who are interested in promoting the effective administration of student financial aid in the United States. The papers included in this monograph were developed for an invitational symposium convened to evaluate the current student loan programs in terms of their effectiveness in serving the needs of this nation's students. The second purpose was to examine and discuss potential changes to the programs to improve their management and equitability in providing access and choice to postsecondary education for all students.

The objective analysis which resulted among representatives of the federal government, agencies and financial aid administrators will undoubtedly improve not only the attitude of the various clientele groups, but ultimately the effectiveness of the program.

Copies of this monograph may be ordered from the National Association of Student Financial Aid Administrators, 910 Seventeenth Street, N.W., Suite 217, Washington, D.C. Pre-payment in the amount of $5.00 must accompany all orders.

Editorial or copyright inquiries concerning this publication should be directed to the Executive Director of NASFAA at the above address.

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PREFACE

During the coming months the Congress of the United States will consider legislation to reauthorize federal student aid programs in 1980. In preparation for this reauthorization process, NASFAA and several other higher education associations have begun to examine the current programs of loan, work and grant aid and to formulate potential revisions to improve their overall management and equitability. To this end, the American Council on Education and the National Association of Student Financial Aid Administrators (through its Committee on New Legislation) are co-sponsoring a series of three invitational symposia on loans, work and grants with representatives of the higher education associations, U.S. Office of Education, Congressional staff, and aid administrators.

The first in this series was held April 10-11 in Washington, D.C. and addressed the student loan programs.

USOE Deputy Commissioner Reviews Federal Programs

Leo Kornfeld, Deputy Commissioner of the Bureau of Student Financial Assistance, began the discussion with a review of current federal loan programs, citing the historical development of student loan programs, their complexity and problems.

Specifically, Mr. Kornfeld used the two charts included as Appendix A as examples of the complex and inconsistent terms between the currently existing federal loan programs as they are administered by both the federal and state governments. He attributed the highly publicized default rates for both the NDSL and GSL/FISL programs to the lack of systematic billing systems, administrative problems at the institutional level, and claim procedures which never were formalized through regulation.

The Bureau of Student Financial Assistance has initiated a series of steps to correct these problems, however, and will be implementing many more as soon as possible. These include the recently published regulations on Limitation, Suspension and Termination of institutional eligibility, simplification of regulations to make them more understandable, and providing more help in locating defaulted borrowers through such efforts as IRS skip-tracing. He also indicated that a small task force within the Bureau is working to identify other areas for possible simplification, including a common GSL application form.

In short, the Bureau has identified many problems with the current programs and is attempting to address them as a group.

Reactions to Kornfeld's Statement

In reacting to Mr. Kornfeld's presentation, Jerry Gibson, Director of Fiscal Services at Harvard University, reiterated the need for research on maximum debt levels. He also suggested the "parent loan" concept as one method of providing additional aid to upper-middle income families.

Greg Lancaster, Vice-President of Security Pacific National Bank, explained that the 1976 law is not bad. It simply requires a commitment to partnership between the commercial lending community, the federal government and educational institutions to be effective. He suggested several methods of getting more banks involved, including (1) providing an administrative allowance, (2) providing for a loan origination fee to cover a lender's administrative costs, and (3) simplifying the loan program's operating and reporting requirements.

According to J. Wilmer Mirandon, President of United Student Aid Funds, getting the lenders, school administrators and government officials together as a team is a key factor in achieving the single goal of the student loan programs, which is to provide loans to deserving students. He presented a strong case for utilizing state and other localized agencies to administer federal loans for several reasons.

First, it must be recognized that the agencies have a much greater influence over lenders, schools, and students in their local areas and the team effort in which (1) schools teach, (2) lenders lend, and (3) government subsidizes and governs, as provided in the current program, should be accentuated. With about $13 billion in cumulative loans and $6 billion outstanding, it is obvious that this teamwork is vital.

Second, agencies have good lender support through efficient, businesslike programs. Mirandon admitted the need for more lenders even in agency states, but pointed to the development of "total lenders" across the country to make loan funds available to all students.

Agencies have lower default rates chiefly because, according to Mirandon, they keep in touch with student borrowers while in school. In addition, in order that defaults do not become losses, some agencies are able to refinance notes on terms which are more favorable to defaulting borrowers.

Finally, Mr. Mirandon pointed to the "gap-filling" programs such as graduate-level and parent loan programs which are administered by some of the agencies as another method of getting loans to deserving students.

Before contemplating the 1979 legislation, Mirandon encouraged OE to fully implement the 1976 legislation as a team, placing heavier responsibilities on state and private agencies.

Five Alternatives Presented

Following this evaluation of the effectiveness of the current programs, five papers were presented, exploring alternatives which might be considered in developing legislative positions for the higher education community. Because of the detail presented in these papers and the broad scope of the alternatives suggested, these papers are included in their entirety in this publication.

NASFAA's Committee on New Legislation Develops Discussion Paper

After carefully reviewing these alternatives and evaluating the effectiveness of the current loan programs, NASFAA's Committee on New Legislation, under the direction of Jim White of Oberlin College, developed a discussion paper, which was distributed to the NASFAA membership on June 15, to solicit grass roots input from the aid community. This paper, and one developed by NASFAA's Title IV Student Assistance Programs Committee, were discussed by those attending the National Conference in San Francisco in July. The responses which are coming to the committees on these two papers will be used to develop their final legislative recommendations which, in turn, will be submitted to NASFAA's National Council for adoption.

Acknowledgements

As a part of the charge to the Committee on New Legislation for 1977-78, NASFAA President Joe McCormick directed the Committee to hold a symposium to bring together the higher education associations, governmental staff, state and private agency personnel and representatives of the financial aid community to discuss the current student loan programs and methods of improving them, looking toward the development of legislative proposals for the reauthorization in 1979 and 1980. The aid community should recognize the time and efforts of the entire Committee on New Legislation for their work in developing this symposium and in providing a reasoned proposal for positive amendments to ensure access and capital availability for the loan programs. In particular, recognition is due Jim White of Oberlin College for chairing this Committee.

Special thanks also is given to Pat Smith and Jack Hughes of the Policy Analysis Service of the American Council on Education. ACE co-sponsored the symposium with NASFAA and provided a great deal of assistance in planning and making arrangements for the meeting.

Without a doubt, each of the papers presented contributed to the discussions and thinking of all the participants and particular appreciation is due Leo Kornfeld, Deputy Commissioner of the Bureau of Student Financial Assistance, J. Wilmer Mirandon, President of United Student Aid Funds, Jerry Gibson of Harvard University, Greg Lancaster of Security Pacific National Bank, Bruce Johnstone and Kurt Kendis of the University of Pennsylvania, Dwight Horch of the Graduate and Professional Financial Aid Service, Dennis Kernahan of Sallie Mae, and Jay Evans of the Pennsylvania Higher Education Assistance Agency.

The NASFAA Committee on New Legislation

James White, Chairman, Oberlin College
William Bennett, Cleveland State University
Patricia Garrett, Middlesex Community College
Dan Hall, Northwestern University
Jim Ingle, University of Kentucky
Amy Nychis, Wellesley College
Edson Sample, Indiana University
Harry Weber, Jones College

STUDENT LOANS:
SOME PRACTICAL RADICAL ALTERNATIVES

D. Bruce Johnstone

The last time I addressed a group such as this on the subject of student loans was at the November 1975 conference of the College Board Loan Study Group, of which I had been a member. My paper was the overview of issues and policy alternatives. I recall Colin Blaydon, one of the reactors to my paper, in a wise and gentlemanly way chiding me for being too conventional. . . too practical. . . . . . too constrained by the given patterns and structures of the existing loan programs. He was undoubtedly right.

And yet, since assuming the burden of supposedly knowing something about student loans, I have spent many days contending with the contributions of colleagues who do not share these maladies of practicality or political realism. Many are economists who, by their membership in that profession, are generally intolerant of imperfections such as subsidies, interest ceilings, debt limits, and other blights on the human capital market. They, too, are right: with the right simplifying assumption and under the cover of ceteris paribus, it it is hard to be wrong. But I find it difficult to engage my own mind, much less the minds of my listeners, for very long on the perfect but hypothetical loan program for the perfect but hypothetical world of introductory economics.

Then there is the third source of voices I feel bound to heed. They are the voices from the trenches, as it were, of federal, state, and institutional student loan programs. They are the voices that remind me how little I really know about the whole thing actually works, and that come near to convincing me that major alternatives--truly radical changes--are next to impossible.

So I will try to be radical and unconventional and practical and realistic all at the same time, and to suggest some alternatives that would substantially change, for the better, student lending in the United States.

D. Bruce Johnstone is Vice-President for Administration of the University of Pennsylvania. A graduate of Harvard (economics undergraduate and the Harvard Graduate School of Education), he holds a Ph.D. from the University of Minnesota. Dr. Johnstone has been with the University of Pennsylvania since June 1972.

PROBLEMS AND LIMITATIONS WITH THE PRESENT SYSTEM OF STUDENT LOANS.

No change makes much sense to any but the unabashed theoretician unless it stems from a perception that there are problems or limitations with the present system and that some alternative has some chance of doing something better. By the 'present system,' I mean the unsystematic occurrence of the National Direct Student Loan Program ($310 million annual lending, with approximately $3.3 billion total outstanding), the Guaranteed and the Federally Insured Student Loan Programs ($1.3 billion annual lending with approximately $6 billion total outstanding debt), and several smaller programs, the newest and most potentially significant of which is the Health Professions Guaranteed Student Loan Program.

The problems and limitations of the present programs can be described in many different ways. The differences are mainly in argumentation rather than in substance. That is, I would not identify the phenomenon of diverse and unconsolidated loan instruments as a problem in itself, but as a very major contributor to a number of more ultimate problems such as capital shortfalls, unwieldy repayment provisions, and defaults. However, if someone else wants to call diverse and unconsolidated loan instruments "a problem," I would be one of the last to disagree. With this caveat, let me mention the six that I suspect appear on most lists:[1]

Insufficient or uncertain or potentially insufficient capital availability.

I hedge a bit on labeling this one because I believe there is some question about how much of a problem capital availability is today. Most observers seem to believe there is a problem--that is, that banks, the Student Loan Marketing Association, and other ultimate and intermediary sources of savings are not channeling as many dollars into student loans as are needed. Without question, there was an aggregate capital shortage prior to the establishment of Sallie Mae, the increase in the special allowance, and the easing of money, all of which occurred at about the same time. Present, admittedly skimpy, evidence suggests a persisting, if uneven, student loan capital shortage.[2] And most projections of the future borrowing needs suggest levels considerably beyond those that the present cast of bank and school lenders will be able adequately to handle. Thus it should seem prudent to conclude that banks and the present institutional (school) lenders, even with Sallie Mae behind them, constitute at best an uneven, slightly unreliable, and potentially inadequate source of student loan capital.

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[1] The list of "problems" draws on the paper cited in the opening paragraph: D. Bruce Johnstone, "Federally Sponsored Student Loans: An Overview of Issues and Policy Alternatives," in Lois D. Rice, ed., Student Loans: Problems and Policy Alternatives. New York: College Entrance Examination Board, 1977.

[2] See Ira L. Burney and Stephen P. Dresch, "The Capital Market for Advanced Education: An Analysis of Private Market Failure and the Failure of Public Policy." New Haven: Institute for Demographic and Economic Studies, Inc., 1978.

Uneven and discriminatory access to student loans.

Related to but separate from the problem of an insufficient aggregate supply of student loan capital is the problem of uneven and discriminatory access to loans. In the absence of fundamental changes, there will continue to be regions, schools, and kinds of students--marked most often by the absence of a "family banking relationship"--unable to get student loans.

Discrimination among students is not ipso facto pernicious. Rationing may be necessary in any system, and public policy often targets a program on a particular set of beneficiaries. What is wrong with the present system is that whatever discrimination exists seems most likely to exclude groups that recent public policy if anything has tried to include: minorities, students from low income families without established banking relationship, women, first year students, and students who are willing and able to borrow and who are in great need of loans but who have not qualified for the interest subsidy. I would summarize the problem of access to loans by observing that the present pattern of success in borrowing does not conform to either federal or college practices of broadening access to higher education through packages of student financial assistance that includes grants, jobs, and loans.

Insufficient attention to the manageability of repayments.

There are a host of changes, most of them conceptually and technically simple, that would make student loans easier to handle for borrower and lender alike. They include:

- Consolidation of all federally sponsored loans into one instrument with one repayment schedule and one set of terms.

- Longer repayment periods for larger debts, shorter periods (or the elimination of disincentives to early payment) for smaller debts, graduated repayment schedules for those who wish them, and easier refinancing for those who need it.

- Some provision for refinancing or even for relief in the event of insufficient earnings to handle the scheduled repayments.

- Use of the personal federal income tax for the purpose of locating borrowers, reminding borrowers of obligations, and facilitating either deferment or forgiveness in the event of very low income.

Each of these proposals--and there are more--is compatible either with the existing program or with an extensive new one. If we do not substantially reshape our federally sponsored student loan programs, I hope that some of these devices can still come to pass through either legislative or executive action.

Potential future debt loads.

Although I am at ease with an important and growing role for loans in financing the expenses of higher education, I am worried about the combination of out-of-control tuitions, particularly in medical and other advanced professional schools, a potential flattening of the expected earnings curve for many of these professions, and the temptation (indeed, the need) to turn to very large debt loads in order to make it possible for students in some of these fields to complete their educations. Already, students from our School of Dental Medicine at the University of Pennsylvania are emerging with an accumulated educational debt as high as $40,000. Adding the very considerable debts from setting up a practice and buying a home--not to mention a spouse with an educational debt--paints a frightening picture. True, the alternative of further burdening the taxpayer has its problems of social equity. And some of the burden of heavy educational debts can be eased in ways other than shifting the cost to taxpayers or to other borrowers. But at present, the assumption that advanced professional--especially medical and other health related--students can absorb virtually any debt level is too casual, and ought to be considered one of our problems.[3]

Defaults.

Defaults are problems. They are so partly--but only partly--because they cost the taxpayer money. Even a substantial default rate does not cost as much as interest subsidization. More important is the image of lawlessness and disrespect for contract that is conveyed by a high rate of default.

The rate of default on student loans will always be higher than other forms of commercial loans by virtue of the absence of collateral, the lag between origination and initiation of repayment, and the extraordinary mobility of students in the early repayment years. I am convinced, though, that the rate of default can be brought down substantially--certainly well below 10 percent and perhaps below 5 percent--with some of the provisions I suggest below.

Costs of loans to taxpayer.

A final problem is the high cost of the student loan program. I list this as a "problem" with some ambivalence, because although the high cost is a fact, it is not clear that it is avoidable or that any of the measures that might substantially reduce costs would provide any net public good. Calculations that I have published elsewhere suggest, with certain assumptions, a discounted net cost per $100 lent of $53.72 for National Defense Student Loans and of $41.00 for Guaranteed Student Loans.[4] The greatest cost by far--$31 of the $41 dollars of cost in the G.S.L. example--are interest subsidies. I do not share the aversion of some of my colleagues toward subsidies as a matter of principle. But I do question whether some of that $31 might have been spent in some other way, still in pursuit of the very ends being sought by the federally sponsored student loan program. And even if the cost effectiveness of such features as the interest subsidies during the in-school years, the special allowances, and the below market rate of interest during the repayment years holds up under scrutiny, these costs are increasingly going to impact the federal budget with possible negative consequences either toward the loan programs themselves or toward the other student aid programs sharing the same slice of the budgetary pie.

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[3] Dwight Horch, "Estimating Manageable Educational Loan Limits for Graduate and Professional Students." Princeton: Educational Testing Service, December 1977. (Reprinted by permission of Educational Testing Service.)

[4] Johnstone, "An Overview of Issues and Policy Alternatives, " pp. 34-42.

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A RADICAL PRACTICAL ALTERNATIVE FOR FEDERALLY-SPONSORED STUDENT LOANS

It is time to make a number of fundamental changes in our federally-sponsored loan programs. "Fundamental change" is never easy--and especially when it affects the Department of Health, Education and Welfare, the Office of Education, the Student Loan Marketing Association, nearly 30 state loan guarantee agencies, the Internal Revenue Service, and the financial aid practices and offices of 4000 to 5000 schools whose students depend to greater or lesser degrees on loans to meet a portion of the costs of their higher education. But wait. . . perhaps the changes are not so very wrenching after all. Perhaps fundamental changes need not be utterly impractical or unimplementable. At least nothing I can suggest will be surprising to listeners or readers who have been urging these, and more, for years. Here, then, is my list.

1. A single federal guaranteed loan program would be created to take the place of the present Guaranteed Student Loan, National Direct Student Loan, and Health Professions Guaranteed Student Loans.

Each (new) student borrower would have a single loan account and, upon initiation of repayment, a single note, payment schedule, and payee. There would be annual and aggregate limits on borrowing, with substantial aggregate debts possible only for the advanced professional schools that wish to combine high student expenses with high income prospects. The maximum repayment periods would be a function of final aggregate debt, with substantial periods (e.g., 20 years) for large debts (e.g., $40,000). All other terms and conditions--interest rates, interest subsidies, deferment periods, and choice of repayment schedules--would be the same for all loans and should be set annually by the Executive Branch according to Legislative guidelines and with Legislative oversight.

Given this unified student loan plan, a great many questions arise. Is 7 percent the appropriate rate of interest? Should the interest rate be variable over the life of the loan? Should there be an interest subsidy--for whom? Should repayments be expected in equal or graduated installments? All of these are essentially of a second order--easily resolved and of no great consequence to the system itself. For the record--and without here taking the time to justify my choices--I would opt for:

- In-school interest subsidies on all loans through a baccalaureate degree; automatic accrual of interest on loans for pursuit of graduate and advanced professional degrees.

- Repayment schedules that normally increase over time in accord with an estimate of earnings; borrowers should have considerable latitude in selecting and in changing repayment schedules.

- A slight increase--perhaps to 8 or 9 percent--in the interest rates to somewhat better reflect money costs (implying a continuation of the fixed rather than a variable interest rate).

- Loan limits (at present) of $2500 per year for first two years; $3000 a year for second two years; $5000 a year for graduate arts and sciences, education, and social work; $7500 a year for graduate business law, and other professional programs. Repayment periods for larger debts should be extended to 15, 20, and as long as 25 years.

2. All new loans would be made by the National Student Loan Bank.

The N.S.L.B. would be an instrumentality of the federal government. Its capital would come from its own issues, which would bear government guarantees. Its assets would consist of the loan receivables, also bearing federal guarantees. Initial capital would come from the purchased assets of the Student Loan Marketing Association, which would in effect become the N.S.L.B., and possibly from existing N.D.S.L. receivables converted to the new form of note.

Commercial banks would have a regular role in the origination of loans in this plan, although they might still provide important sources of capital to the National Loan Bank and might also serve as servicing agents under contract from N.S.L.B.

3. Loans would be originated by the postsecondary institutions acting in an agency capacity for N.S.L.B.

Prior to each lending cycle, the participating schools would apply to N.S.L.B. for credit lines based on numbers of students, needs of students, and the like (not unlike the present tripartite application process). Upon disbursement of loans to the students, the schools would pass the processed notes on to N.S.L.B. (probably a state or regional office). The mechanics of borrowing and lending would be as though the present Student Loan Marketing Association (Sallie Mae) were to give each F.I.S.L. school a guaranteed purchase commitment and were then to take physical custody of the loans and all servicing and collection responsibilities. Institutional eligibility would be predicated upon the maintenance of proper records, prompt notification of N.S.L.B. upon student's graduation, etc. All notes would continue to bear a 100 percent guarantee from the United States government. There would be no federal student loan apparatus, office, or employees other than in the N.S.L.B. The federal reinsurance of state guaranteed loans would be phased out, with a modified role (see #4 below) for the existing state guarantee agencies.

4. The N.S.L.B. would establish regional or state offices to:

   a. Assist and monitor institutional originators;

   b. Handle the conversion of existing loan notes (see #6 below);

   c. Take physical custody of loans processed in the participating institutions and disburse funds to the originating institutions;

   d. (For a few states able to do so) perform servicing and collection responsibilities.

Where states have existing guarantee agencies, these agencies may choose to perform the services needed by the N.S.L.B. In non-agency states, or in states which choose to phase out their guarantee agencies, the N.S.L.B. will establish state or regional offices or contract with a nearby state agency to perform the needed services on a regional basis. The aim of this provision is to preserve the advantages of regionalized attention to student loan needs and to preserve wherever possible the experience, personnel and apparatus of the state agencies while phasing out the role of the state as a guarantor (a role that, with 100 percent reinsurance, has virtually ceased to exist anyway in any meaningful sense).

5. All servicing and collection responsibility would be borne by the N.S.L.B.

While colleges and universities are the proper originators of loans, they are not particularly effective as servicing or collection agents. More and more of them--as of banks--have realized this and have turned to one of the private loan servicing agencies to maintain records, send bills, and in the case of delinquency to proceed with "due diligence" through the five stages of student lending--assumption of risk, provision of capital, origination of loans, servicing and collection of payments, and provision of subsidies--become uncoupled, there seems to be less and less reason for keeping the college involved in any stage beyond origination, record keeping, exit interviews, and preparation for repayment. The federal government bears all risk, and it is not clear that this risk is at all lessened (it may in fact be heightened) by the continued identification of the debt obligation with the college experience. The colleges gain little, and probably lose some, by an alumni contact that is mainly dominated by the need to bill for past accounts. If a college originates the loans poorly or neglects exit interviews or is otherwise remiss in its obligations, the proper remonstration is a removal or a curtailment of new lending authority.

Little or nothing seems gained, then, by the continued identification, or physical custody of notes, by the college. The actual servicing would undoubtedly be worked out by N.S.L.B. with a number of specialized loan service agencies. As suggested above, these might at times be the existing or neighboring state agencies.

6. The N.S.L.B. would purchase as rapidly as possible existing loan portfolios, beginning with the portfolio held by Sallie Mae. Existing loans, to the extent legally possible, would be converted to seven percent paper and consolidated into single accounts for each borrower.

This exercise, while aesthetically attractive, probably need not consume major amounts of resources, at least in the early years of N.S.L.B. In time, however, most of the existing paper should be converted into forms compatible with the new notes and the new servicing system.

7. All borrowers required to file for personal income tax would provide information about their N.S.L.B. status (in or not yet in repayment), the aggregate debt owed at the close of the tax year, the amount of principal and interest paid during the tax year, and any amounts past due. Interest paid would entitle the taxpayer to a (50%) tax credit up to a maximum of ($500) with amounts thereafter deductible like ordinary interest. A supplemental tax schedule would be required for all student borrowers.

Most schemes that have linked student loan repayments with the income tax have done so in pursuit of the principle of income contingency--that is, making the amount of repayment due itself a function of reported income. I believe there remains a role for a linkage between repayment and income, and suggest one such relationship in principle #8, below. But the principle purpose of mandatory filing, a supplemental schedule, and a tax credit for the first $1000 of interest paid is much simpler--namely, to combine the pervasive coverage of the personal income tax with the monetary incentive of a tax credit to reach, remind, and monitor borrowers about their repayment obligations.

The Internal Revenue Service has a quite proper aversion to being used as a collection agency for ends other than the payment of taxes. Given the potential for loading the Form 1040 with extraneous material, I respect this position. However, the deductibility of interest is already a major item (federal tax expenditure, if you will) on the personal income tax; the deduction of student loan interest could soon become extensive. With other forms of college tax credits knocking at the door of the 1040 Form, and with the entire tax code increasingly designed to serve public ends other than filling the coffers of the Treasury, I feel no shame in proposing a tie between student loan accounts and the personal income tax. More important, federally sponsored student borrowing is in many respects already a close cousin to taxes: loans and repayments are in this country a virtual alternative to larger outright federal grants, and are in part an effort to target a portion of the costs of higher education upon the student recipient rather than having all borne by the general taxpayer.

There are alternative and additional forms this linkage could take. Provision could be made, for example, for the payment of past amounts due by an additional payment to the IRS or by a deduction from the rebate owed the taxpayer. And a ceiling on total annual payments that are not to exceed a certain percentage of adjusted gross income, as explained more fully below, would add a measure of protection against unmanageable debt--again through the device of the personal income tax. But the most important payoff to this linkage should be the regular, enforceable contact with borrowers and a consequent great reduction in delinquency and default.[5]

8. Repayments in excess of a certain maximum percent of income (e.g., 6 percent of adjusted gross) would be deferred without penalty. Borrowers who had paid the maximum percent of income through the originally scheduled repayment period would be subject to an extension period (e.g., 3 years) after which any debts--remaining after continuous payment of (6) percent of income--would be forgiven.

I have written elsewhere in support of the concept of income contingency applicable only to borrowers whose incomes prove insufficient to manage their educational debt load with costs supported by the government as *post hoc* aid rather than by high earning individuals who happen to have been former borrowers.[6] With extended repayment periods and careful attention to aggregate debt limits, the protection of this income contingency should not have to be extended to many. But it would provide some assurance to some borrowers that there would be relief, short of personal bankruptcy, from debts that become unmanageable due to lower than anticipated earnings.

Conclusion: The Practical Radical Solution

A National Student Loan Bank has the sound of a major new agency, of a frightful conflict with existing offices and agencies, and of a radically new approach to student loans that substitute schools for banks. These--and other--images of the radical alternative are only partly true. There is a very different perspective on essentially the same package. This is the perspective that reminds us that virtually all colleges are already originators of loans, and that my proposal is a step toward fiscal conservatism by taking the colleges out of the serving business altogether. We must remember that Executive Branches for years have tried to rid us of N.D.S.L.; my plan guarantees an almost total replacement by institutionally originated guaranteed loans. We should also recognize that Sallie Mae is a virtual National Student Loan Bank already--with only a few minor modifications such as advance purchase commitments and a more extensive set of college and university customers (read "agents"). And the linkages to the Internal Revenue Services are nothing more than a special treatment for the payment of this special interest expense--which is deductible anyway. The other changes are almost technical in nature.

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[5] Burney and Dresch suggest either the Internal Revenue Service or the Social Security Administration to keep track of student borrowers. Burney and Dresch, *op.cit.*, pp. 45-47.

[6] D. Bruce Johnston and Kurt L. Kendis, "More Manageable Student Loans," Philadelphia: University of Pennsylvania, 1977. See also D. Bruce Johnstone, *New Patterns for College Lending: Income Contingent Loans*. New York: Columbia University Press, 1972.

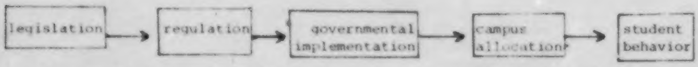
Of course it isn't all that easy either. But a vastly more simple and effective system of federally sponsored student loans is not far off if we only approach the topic with the proper mix of radical practicality.

Solving the Student Loan Problem
By Supplementing Government Loan Policy--
An Expanded Role for Institutional Aid Administrators in the 1980s

Kurt L. Kendis

Introduction

The focus of governmental policy on student finance appears to drift from the component most essential in any formulation--the student. Legislation and regulation concentrates on those mechanisms necessary to accumulate capital, oversee procedures for guarantee claims, and tally, ex poste, the results. Students are the residual in the procedural scheme:



And the behavior of students is not surprising. The actual loan default and delinquency on the part of students is probably beyond imagination--particularly if the formulation includes those families who assume the payments their son or daughter ignores--either intentionally or reluctantly.

Those students with a positive response to their fiscal responsibility may opt for either an early entry into an earning stream when an optimum career path should include additional training, or embark upon a philosophy of income maximization--clearly leading to choices not necessarily in the best interests of the "social good" of the country.

Finanical aid and loan officers have been long wielding much greater influence on the destiny of their institutions than their position in organizational hierarchy would suggest. The procurement of funding in the campus-based program, the optimum allocation of all aid funds (without over-commitment) to students who may or may not choose to matriculate, the counseling of students taking loans, and the collection of loans--often without aid of a competent service bureau, are expanding faster than universities recognize the role of the aid/loan decision maker. Any discussion of federal policy must focus on the future importance of management skills in these areas. This paper presents tools to supplement the federal programs, in full recognition that the implementation of both innovative programs and lending plans sensitive to student needs requires aid and loan personnel with vision and managerial expertise.

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The Problem

Student loans are not consumer loans. The rules for analysis of assets, incomes, borrowing limits, and collection procedures are seemingly diametrically opposed to methodologies long since proven successful in consumer credit, as well they should be. Students are borrowing as a part of investments in their own human capital; lenders loan to assure access and choice; the government guarantees loans to assure capital availability on the part of all three participants (student, lenders, and guarantors) increments dynamically each-year with drastic negative attitudinal implications.

The attitude of whom? In the first instance, certainly students. These borrowers face a decision process (attending their next year of school) with a price elasticity of zero--as costs increase, they are seldom deterred from attendance if they can borrow funds. The lenders (usually colleges and universities or financial institutions acting in what they feel is the best interest of their college or student clients) continue to lend greater volumes of funds leading to a greater median debt loan with ever-increasing misgivings (yet with a government guarantee in their pocket). The attitude most prevalent among legislators (also growing incrementally) is avoidance of a most complex issue--merely increasing the parameters of existing programs and shutting their eyes to the long-range costs, the social consequences, or the behavioral impact of these programs.

A lack of sensitivity to issues of student loans is the problem. The counseling of students is complex, so loans are neatly tied in a bundle at an exit interview. The analysis of repayment data requires uniform methodology and sophisticated organization consolidation, certainly not an easy task when offices are understaffed and often not computerized. Implementation of graduated and extended repayments demand research data which does not exist and technical expertise which has been slow to develop. Yet despite the above-mentioned difficulties, the attitudes seem to remain the basic barriers. The Zacharias work in the late sixties and the subsequent failure of sample income contingent loan programs (failed due to a false start and not an inherent risk, as some would argue) preclude the current obviously burdensome debt loads. Yet income contingency fails to gain acceptance since the negative earlier reactions provide an attitudinal barrier. Students are continuing to default or at least prolong delinquency subsequent to the development of attitudes while they are in school. A loan is a loan and an award is an award, yet there is little surprise at the fact that ex-students are slow to repay their "awards."

Certainly integral to the lack of sensitivity to student loan issues is the role of loan officers in an institution. This writer contends that the financial aid/loan officer can determine much of the impact of future finances, enrollment and alumni contributions for his or her institution. Until the day when enlightenment strikes legislators and we find a large and consolidated central student loan mechanism (not unlike the Johnstone model) the burden will remain with the aid administrators to solve many of the problems which carry the weight of historical precedent. This paper is an attempt to present some technical solutions definitely within the aegis of the aid officer.

Organizational Requirements

Despite publication in the Federal Register of details of a central record-keeping regulation for financial aid, few schools had the foresight to prepare their internal organization to deal with the details of student finances in 1978. Awards of financial aid; bills for tuition, fees, and services; disbursement and collection of federal, state, and institutional loans; term and summer employment placement; counseling on advisability of further training; and eventual solicitation of alumni contributions all have a common theme--the systematic contact between institution and the student concerning financial matters. Yet the growth of the programs these services or contacts represent often proliferates staff and activities in an area demanding consolidation. In the worst of all possible scenarios, admission and financial aid are separate, graduate admissions and aid are separated by each division, FISL loans are administered separately, and a student receives bills for services from each office (library, dining, residence) responsible for the service. A student facing diverse offices and bills and loans--particularly since most are neophytes in matters of personal finances--is numbed into an irresponsible attitude towards these finances. In effect, the decentralized organization is creating bad debtors long before the repayment periods begin.

The central record-keeping solution is merely a partial remedy, for as debt levels rise the counseling of a student becomes increasingly important. Why should already overloaded staff invest scarce manhours in student financial counseling? Student loans are not commercial credit and universities are not consumer discount loan companies. The long-range good will of the student as an eventual alumni contributor or alumni supporter, as well as as an individual responsibly repaying his loan on time dictates the need for this counseling.

Student-institution relationship are not enough in the climate of rapidly growing loan portfolios. The marketing of a university is not merely admissions, and the cost is not merely gross tuition and fees. The cash flow problems facing all institutions can be exacerbated by poor planning and improper secondary marketing of loans. Thus the aid/loan officer carries a major input in the future financial planning of a university. Many of the technical tools presented below can be useful only if there are aid officers influential enough to utilize them.

Again it is important to note that this writer anticipates no immediate governmental guiding hand, and by promoting the role of the centrally organized aid/loan officer an opportunity to supplement government policy. The optimum aid/loan officer (call it the bursar or comptroller or vice provost for student finances) thus centralizes contact with and counseling for students, creates inputs to financial planning, helps the marketing or good will of the institution, and establishes a relationship conducive to promoting alumni development after graduation.

Analytic Data Requirements

Problems of accurately reported defaults and delinquencies are but the first data difficulty in student loan management. The aid/loan office must make an effort to analyze all of the students' obligations for purposes of counseling. Included would be those debt or work obligations external to the university as well as intra-family loans.

The analysis of defaults and bankruptcies to guide policy decisions at the university level is long overdue. Recent work at Stanford and Cornell, for example, reinforced the fear that students who do not complete four years, if not given special collection treatment, are high risks for default. Early modification in procedure will hopefully help reduce systematic defaults of this nature.

Reporting of aggregate data and sharing of borrowing repayment and collection experience with other institutions will help these centrally organized offices cope with the volume and complexity of future operations. Certainly, a consolidation effort to good management practices will include the creation of responsible service bureaus to bill the student. Only through impetus from the universities themselves can current service bureaus become both efficient and sensitive to the students' and institutions' needs.

Existing Solutions to the Capital Availability Problem--Parent Loans

Most observers of the main issues of student finance in higher education rightfully express concern over the need for additional loan capital. As this writer has stated above, the main problem is sensitivity, for capital access has been solved, in the short run, by the federal government (see Appendix III) and by commercial credit loans, also known as Parent Loans, Educational Loans, or Insurance Loans. These commercial loan plans are external to the institutions, and are not new.[1] Only the added marketing of these plans is a recent phenomenon.

These commercial loan plans are selective, require collateral, often do not involve the student, and may have no physical contact with the institutions who permit them to utilize their students as a captive market. A recent conservative tally indicated in excess of $200 million loaned annually in commercial loan plans using educational titles as a marketing technique. A university, through its aid/loan officer, should carefully investigate the entire spectrum of programs available and offer families of students the best set of alternatives.

Since defaults are historically low on these programs and profitability relatively high (including the life insurance premium add-on), institutions should have no qualms about using the right to mail to their students as an incentive for "competitive" programs to offer the most appealing package. A possibility that persists is extended repayments, as opposed to the rapid amortization now in practice. A most compelling idea is to ask the commercial lender to gather data on the families to whom he lends--thus building analytic possiblities for future decisions. (more on this below)

Using an Institution's Line of Credit for Parent Loans

Financial officers in a university are well aware that educational loans are often good investments. Retention of FISL portfolios while their anticipated return is higher than the institution's own internal rate of return is already a common practice. But the use of loans as a marketing technique has received (justly) major criticism when the loans are government student loans. Hidden in this outcry is the opportunity for a university to offer a creative Parent Loan Program to families of its students. Capital access is possible through the guarantee of the university's trustees. The tailoring of the program should meet the needs of and correspond to the marketing techniques of the institutions. The examples presented in Appendix IV illustrate a) standard loans; b) a loan where the monthly repayment is fixed and the terms increase as borrowing grows; and c) a plan where the family can choose in advance the scheme they prefer.

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[1] This material is extracted from "A Planning Package for Parent Loan Programs" K.L. Kendis, Higher Education Finance Research Institute, Office of the President, University of Pennsylvania, Philadelphia, 19104, January 1, 1977.

Most important is the university's anticipation of demand and cash flow consequences (see Appendix V), which involve substantial capital to operate a complete program. The management of a parent loan portfolio is a treasury function, although the program itself could be considered aid or within the scope of admissions recruitment.

The Two-Paper Concept in Student Lending

No signs, no hints, and no forecasts for the near future indicate policy changes in the government loan program which would meet "sensitivity" criteria involving income contingency or graduated repayments. One major impediment has been the extraordinary complexity of the concept of income contingent repayments. Without changing existing loan program policy, current loan procedures may be supplemented with sensitive program alternatives in the form of an additional loan note.

A two-paper or "hybrid"[2] plan involves two contracts. The first contract is a standard straight-line loan repayment (and could certainly be a federal student loan). The second contract, also signed at the inception of the loan, is really an income contingent "side agreement." The purpose of the "side agreement" is to make the student's obligations income contingent, no matter how large and burdensome the primary obligation. Under such a plan, most borrowers would repay according to a standard (possibly graduated) schedule. Borrowers at or below a certain income level would pay only the maximum percent of income. If their incomes increased after a few years, they would "catch up" with their primary repayment schedule and move back to conventional fixed payments. However, if their incomes remained low enough to keep them from paying the maximum percent-of-income throughout the repayment years, they would assume a second debt composed of the deferred payments and accrued interest. The second debt--the amount "refinanced" by the second contract--would remain at the end of the originally scheduled repayment period. At that time, the borrower would continue to repay at a percentage of his or her income until the second obligation is satisfied. In effect, the second note repays the first and makes the burden less on the student.

Use of the Two-Paper Concept

Any supplemental loan program, or "side agreement" is a particularly vexing problem for the banking community on its efforts to simplify procedures. But combined with the previously elaborated counseling programs and efforts to emphasize alumni contributions, the difficulties of administrating a two contract program may be well worth the complexities. Foremost is a minimization of the "burden" of higher student debt loans--hence defaults and delinquencies--since low earners will be able to meet their obligations.

The equitable nature of a program which is sensitive to effects on students can only benefit the sponsoring institution. Whatever negative attitudes students may have toward loan repayment can be ameliorated with a university endeavoring to help ease the burdens of student debt.

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2. A complete exposition of the hybrid or two-paper concept can be found in "More Manageable Student Loans," D.B. Johnstone and K.L. Kendis, Higher Education Financial Research Institute, Office of the President, University of Pennsylvania, Philadelphia, 19104, 1977.

A conceivable linkage between the loan office and a student placement service is possible if one considers employers purchasing the loan paper of their young employees. Certainly, universities or other employers could consider the establishment of the second note loan program as an employee benefit program to replace or supplement current full or partial tuition benefits, which get costlier each year. These utilizations of the two-paper concept imply a capitalization of the second note from external sources. If such a program were to expand to its full potential, capital availability becomes an important consideration. Again, a university's alumni relations can play an essential role--either with appeals for special contributions to support such a program, or constant appeals to former students to repay the second notes as soon as they are able.

An additional application of the two-paper principle would involve the participation of secondary guarantee of the parents. But beyond parents sponsoring the second note, there are more interesting.feasible involvement of parents and families.

The Concept of the Family Loan for College Costs

The subject of student loan disintermediation has always occupied a portion of the literature--yet the arguments always question disintermediation and the disbursement. Imaginary horribles of parents buying yachts with the proceeds of a guaranteed student loan presented quite the opposite scenario from early data this writer has gathered. The repayment of the loans is the disintermediation behavior frequently noted. FISL loan portfolios with as many as 75% of the early note repayments being assumed by the parents are very much involved in student loans--but not in the negative context of earlier concerns.

If parents and families, of their own volition, intend to assume or share some of the loan burden, why not optimize their participation? Ideally, parents have three elements to offer a program of student finance-counsel, guarantee, or cash payment. By far the most important is the guarantee--where the parents cosign the student loan note. This would make capitalization of a loan program attractive to commercial lenders. But total participation of the family in student lending--commensurate with their ability--can potentially solve the need for sensitivity.

The model plan illustrated on the next page has the following features:

1. Pre-loan counseling is with participation of students and parents.

2. The loan note itself contains signatures of both parents and students.

3. At their option, the parents agree to pay the interest on the outstanding loan balance while the student is in school and then a declining share of the payments in the early years of the loan.

4. The student will, in effect, experience graduated repayments--eventually assuming entire repayment.

This family educational loan plan is an attempt to institutionalize the parents' commitment to their children's education cost. If the family cannot assume greater payments during school years (since they may already have a substantial parental contribution), then the commitment of their financial guarantee provides the opportunity to lessen repayment burdens on the student during the early years when default experience is greatest.

A Federal Role in Loan Innovation?

These secondary student loan instruments are an attempt to anticipate "side agreements" in the face of federal policy which concentrates on the capital availability needs of student loan program. Although favoring a centralized student loan bank (like the Johnstone model), this writer anticipates that only a capital availability crisis would force legislators to recognize the need for a National Student Loan Bank. If recent history is any indication of the future, incremental growth of existing mechanisms will continue without coordinated attention to those issues which this writer labels "sensitivity considerations." In other papers,[3] some consequences of loan insensitivity are further elaborated -- disincentive to enter public service, income maximization behavior, career paths forsaking pro-bono work, or incentive toward default and delinquency--but by facing the inevitability of side agreements, institutions and students and their families alike can plan for the future.

There remains a possible significant and appropriate federal participation in student loan "sensitivity." First and foremost is an analysis of sources and uses of family funds used to pay higher education cost. Only a comprehensive and definitive national study can provide the data needed for policy analysis of student loan plans.

Beyond research, and before the National Student Loan Bank, the most compelling role of the federal government falls not in the field of student loans (where the argument is presented that the legislation will continue to provide capital access) but in manpower allocation. The H.E.A.L. loan program, for example, is part of health manpower legislation--designed not necessarily to help students, but encourage participation in the National Public Health Service Corps.

Looking at the side agreement (or secondary loan) phenomenon, what better way to encourage manpower allocation than to act, on margin, with secondary debt instruments. For example:

1. A branch of government (federal, state, or local) wishing to encourage public service work in its own area can forward contract for the side agreements of young students--relieving the student of burdensome (but not all) payment levels and guaranteeing his needed services in the public interest.

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[3] "A Rational Guide to Graduate and Professional Student Financial Assistance" K.L. Kendis in Student Loan Marketing Association, Development in the Financing of Graduate Education, 1977.

2. Legislated limits on income tax deductions (federal, state, or local) for interest in student loans can vary with the individual's commitment to public service work.

3. Purchasing of the student's entire loan portfolio could certainly motivate public service.

In all of the above examples, the cost would be borne by the agency supporting the work. In this way a manpower allocation law will not be confused with student aid.

A federal role in streamlining administrative procedures seems probable. How much of collection difficulties stem from problems as banal as student mobility? But the efforts of S.L.M.A. could continue in this area.

In the final analysis, this writer favors eventual consolidation of student loan programs into a National Student Loan Bank. The sooner those in government student aid act to promote consolidation and loan sensitivity, the sooner student loans will avoid the clutches of political pressure, manpower allocation issues, or consumer interests.

Summary and Conclusions

1. In the face of incremental expansion of already existing programs and continued stagnation of attempts to make loan programs sensitive to students' ability to pay, the aid/loan administrators in colleges and universities must act on their own to develop innovative and sensitive student loan mechanisms which utilize the large capital access offered by federal programs while preserving the interests of their students and the long-range goals of their institutions.

2. A precursor to student loan innovation is central organization of student financing activity. The decision making of a university with respect to student loans affect enrollments, incomes, finances, and possibly alumni contributions--and the officer responsible for loan policy should have recognition commensurate with his or her influences.

3. Parent loans are a popular capital access tool which may help relieve the student loan "burden," while promoting the good will of the institution and recognizing the role of the family.

4. Side agreements appear as an inevitable consequence of high student debt loads. The two-paper or "hybrid" loan is an example of an anticipatory side agreement which "sensitizes" a student loan program.

5. A family loan plan may best combine the advantages of family participation with the inevitably of side agreements, although capital requirements are large.

6. There are many possible government roles in student loans beyond current programs. Best would be a consolidation of programs combined with extensive research into family financing patterns, but other interim participation is possible. Particular attention must be given to the separation of student aid issues and problems of manpower allocation.

APPENDIX I

How the University of the Future Handles Student Finances-A Case Study

The student first had contact with the university before he was born. His father, as a young alumnus and with the help and counsel from the university's fiscal services office, established a charitable remainder trust with the university as beneficiary and the interest accruing and compounding for the student's use on educational costs. The contributions to the trust were small each month, but tax-deductible in the year they were given, and the interest was taxable as the student's income at the student's tax rate. When educational expenditures are no longer required, the trust is given to the university. Not eligible for grants or subsidized loans, the family participates in the "family loan plan" to pay the rest of the educational costs. The parents sign the note along with the student, and pay the interest on the outstanding balance during school and a portion of the interest as the student begins repayments which increase each year until the student's payment pays all interest and amortizes the principle. Both parents and student continue to contribute the same monthly amount even after their obligation under the loan are fulfilled--but now as a tax deductible contribution.

The student's roommate is eligible for aid and subsidized loans, and the borrowing required to pay graduate and undergraduate expenses is substantial. Each year, when this student incurs more federally sponsored debt, he is counseled as to his obligations and income in the future. His family helps, and together they sign a second note long before the student graduates. This note is used in the early years following graduation, when the student can only partially meet his obligations under the government loans. This second note keeps the government loan current until the student's income is adequate to pay both the government loan and the second "family" loan. Again, the student is counseled annually, and encouraged to translate his financial relationship with the university into alumni contributions.

A SAMPLE FAMILY LOAN

-A Plan Recognizing the Phenomenon of Intra-Family Disintermediation of Educational Loans

term=10 years from graduation   interest=10%

		Parent Obligation		Student Obligation		
	Borrowing	Interest Repayment	Principle Repayment	Interest Repayments	Principle Repayments	Total Repayment
1979	$ 2,500	$ 250	—	--		
1980	2,500	500	—	—		
1981	2,500	750	—	—		
1982	2,500	1,000	—	--		
1983		628	—	$ 0	$ 1,000	$ 1,628
1984		500	--	128	1,000	1,628
1985		250	--	378	1,000	1,628
1986			--	628	1,000	1,628
1987			--	628	1,000	1,628
1988			--	628	1,000	1,628
1989			--	628	1,000	1,628
1990			--	628	1,000	1,628
1991			--	628	1,000	1,628
1992			--	628	1,000	1,628
	$10,000	$4,878		$4,902	$10,000	$16,275

The loan is guaranteed either through the assets of the family or the guarantee of the university, for which an interest premium may be extracted.

Interest payments are tax deductible in the year they are paid by whom they are paid.

Both family and student are encouraged to continue their annual payments as tax deductible charitable contributions.

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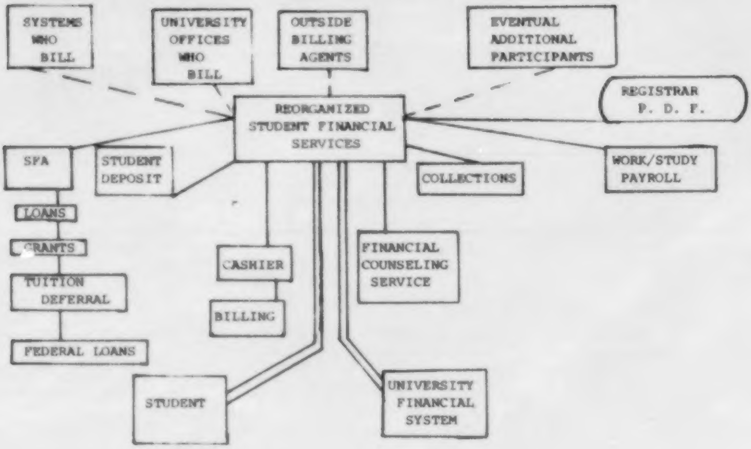
APPENDIX II --- AN OPTIMUM

Central Aid/Loan Organization


SYSTEMS WHO BILL
UNIVERSITY OFFICES WHO BILL
OUTSIDE BILLING AGENTS
EVENTUAL ADDITIONAL PARTICIPANTS
REGISTRAR P. D. F.
REORGANIZED STUDENT FINANCIAL SERVICES
SFA
STUDENT DEPOSIT
COLLECTIONS
WORK/STUDY PAYROLL
LOANS
GRANTS
TUITION DEFERRAL
FEDERAL LOANS
CASHIER
BILLING
FINANCIAL COUNSELING SERVICE
STUDENT
UNIVERSITY FINANCIAL SYSTEM

DESCRIPTION OF CENTRALIZED STUDENT FINANCIAL SERVICES

- All student financial functions centralize their records
- Financial counseling keys each student into financial service
- New file communicates with Registrar
- All segments with student financial services interact
- All financial transactions and communications flow through system

APPENDIX III. The Government Solution to the Capital Availability Problem

FULL-LIMIT AGGREGATE LOANS FOR
A SINGLE HEALTH PROFESSIONS STUDENT

Year	NDSL Borrowing	FISL Borrowing	HEAL Borrowing	HEAL Repayment	FISL Repayment	NDSL Repayment	Total Repayment
1974-5	$1,250	$1,250					
1975-6	1,250	1,250					
1976-7	1,250	1,250					
1977-8	1,250	1,250					
1978-9	2,500	5,000	$10,000	$ 375			$ 375
1979-80	2,500	5,000	10,000	312			312
1980-81			10,000	250			250
1981-82			10,000	187			187
1982-83			10,000	78			78
1983-84				6,381	$2,415	$1,172	9,968
1985				6,381	2,415	1,172	9,960
1986				6,381	2,415	1,172	9,960
1987				6,381	2,415	1,172	9,960
1988				8,390	2,415	1,172	11,977
1989				8,390	2,415	1,172	11,977
1990				8,390	2,415	1,172	11,977
1991				8,390	2,415	1,172	11,977
1992				8,390	2,415	1,172	11,977
1993				8,390	2,415	1,172	11,977
1994				8,390			8,390
1995				8,390			8,390
1996				8,390			8,390
1997				8,390			8,390
1998				8,390			8,390
	$10,000	$15,000	$50,000	$146,117	$24,150	$11,723	$181,990

Assumptions

Five year medical school program.
No grace periods.
FISL = 9.75%, NDSL = 3%, HEAL = 10%
Resident opts to pay interest rather than let it compound and accrue.

Thus, this writer would like to emphasize that there is not a crisis in student finance of higher education. Capital availability problems have been solved by legislation and regulation, as the table plainly illustrates.

Of course, state or institutional loans are not included; nor any borrowing the person needs to begin practice or buy a home.

Extracted from "A Short Essay On The Non-Crisis In Student Finances," Kurt L. Kendis, April 1, 1978.

APPENDIX IV

Model Parent Loans

a) A standard loan

```
STANDARD LOAN TABLE -- MONTHLY PAYMENT NEEDED TO RETIRE A LOAN OF
                    $1,000 - $6,000 IN 1 - 4 YEARS

 AMOUNT        ------NUMBER OF YEARS TO REPAY------
BORROWED          1         2         3         4

  1000          86.80     45.34     31.56     24.70
  2000         173.60     90.69     63.12     49.40
  3000         260.40    136.03     94.69     74.10
  4000         347.20    181.37    126.25     98.80
  5000         434.00    226.72    157.82    123.50
  6000         520.80    272.07    189.38    148.20

NOTES:  1. ANNUAL INTEREST RATE = 9 PERCENT.
        2. MONTHLY PAYMENTS BEGIN AT START OF FIRST MONTH.
```

b) Fixed monthly payment

```
          MONTHLY PAYMENT =
              150                   200                   250                   300                   350
 --------  --------- ---------  --------- ---------  --------- ---------  --------- ---------  --------- ---------
| TOTAL  ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF |
| AMOUNT || MONTHLY | MONTHLY || MONTHLY | MONTHLY || MONTHLY | MONTHLY || MONTHLY | MONTHLY || MONTHLY | MONTHLY |
|BORROWED||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS |
 --------  --------- ---------  --------- ---------  --------- ---------  --------- ---------  --------- ---------

  27000        **         **        201     44021       139     34625       104     30962        83     28831

NOTES:  *THE FINAL PAYMENT WILL BE A SMALLER AMOUNT EQUAL TO THE BALANCE OF THE PRINCIPLE AND INTEREST.
        ** 0 INDICATES THAT MONTHLY PAYMENT IS TOO LARGE FOR THE LOAN AMOUNTS.
        ***** INDICATES THAT THE LOAN CAN NEVER BE PAID OFF WITH THIS PAYMENT (INTEREST > PAYMENT).
        **THIS SERIES OF LOANS IS EQUIVALENT TO BORROWING 21543 AT THE BEGINNING OF THE FIRST YEAR.
```

c) Variable term and payment

```
PENNSYLVANIA PARENT LOAN PROGRAM
********************************

                  SELECTED MONTHLY PAYMENT
                  150                   200                   250                   300                   350
 --------  --------- ---------  --------- ---------  --------- ---------  --------- ---------  --------- ---------
| TOTAL  ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF ||NUMBER OF|TOTAL OF |
| AMOUNT || MONTHLY | MONTHLY || MONTHLY | MONTHLY || MONTHLY | MONTHLY || MONTHLY | MONTHLY || MONTHLY | MONTHLY |
|BORROWED||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS ||PAYMENTS |PAYMENTS |
 --------  --------- ---------  --------- ---------  --------- ---------  --------- ---------  --------- ---------

   500          4       534           3       554           3       579           2       593           2       582
  1000          7    [illegible]      6    [illegible]      5    [illegible]      4    [illegible]      3    [illegible]
[illegible]    11    [illegible]      8    [illegible]      7    [illegible]      6    [illegible]      5    [illegible]
[illegible]    15    [illegible]     11      2077           9    [illegible]      7    [illegible]      6    [illegible]
[illegible]    18    [illegible]     14    [illegible]     11    [illegible]      9    [illegible]      8    [illegible]
[illegible]    22    [illegible]     16      3144          13    [illegible]     11      3110           9    [illegible]
[illegible]    26    [illegible]     19    [illegible]     15    [illegible]     13    [illegible]     11    [illegible]
[illegible]    30    [illegible]     22    [illegible]     17    [illegible]     14    [illegible]     12      4167
[illegible]    34    [illegible]     25    [illegible]     20    [illegible]     16      4754          14      4714
[illegible]    37    [illegible]     28    [illegible]     22    [illegible]     18      5317          16      5266

THIS TABLE WAS CREATED WITH THE FOLLOWING ASSUMPTIONS:
    [illegible]
    [illegible] = ONE DOLLARS
    PAYMENTS BEGIN AT [illegible]

NOTES:  *THE FINAL PAYMENT WILL BE A SMALLER AMOUNT EQUAL TO THE BALANCE OF THE PRINCIPLE AND INTEREST.
        ***** INDICATES THAT THE LOAN CAN NEVER BE PAID OFF WITH THIS PAYMENT (INTEREST > PAYMENT)
```

APPENDIX V

Parent Loan Program
Cash Flow and Costs

	FISCAL YEAR 1		FISCAL YEAR 2		FISCAL YEAR 3		FISCAL YEAR 4		FISCAL YEAR 5		FISCAL YEAR 6	
	9/1 TO 12/31	1/1 TO 8/31	9/1 TO 12/31	1/1 TO 8/31	9/1 TO 12/31	1/1 TO 8/31	9/1 TO 12/31	1/1 TO 8/31	9/1 TO 12/31	1/1 TO 8/31	9/1 TO 12/31	1/1 TO 8/31
1. NO. NEW STUDENTS	150	0	200	0	250	0	300	0	350	0	400	0
2. TOTAL STUDENTS	150	150	350	350	600	600	900	900	1250	1250	1650	1650
3. AMOUNT LENT OUT	265119	295906	781750	784900	1738954	1200904	2036637	2036637	2612577	2632377	3304417	3304417
4. AMOUNT OUTSTANDING [illegible]	241634	522915	743179	1094613	1612136	2274749	2911670	4184002	4783043	6073630	6766847	8046181
5. REPAYMENTS -- PRINC.	146745	291414	314635	697612	621224	1218390	951601	1647712	1374659	2653164	1856947	3611630
6. REPAYMENTS -- INT.	4726	13514	13131	41604	36114	121665	71665	191017	110717	290600	165103	310444
7. DEFAULTS	273	405	917	1378	2015	2444	3745	5131	5913	7192	8234	10573
8. TOT. ADMIN. COST	4111	687	2914	1491	3151	2514	6771	3249	6271	5151	7473	7314
9. INITIAL ADMIN. COST	[illegible]	0	[illegible]	0	2582	0	[illegible]	0	[illegible]	0	[illegible]	0
10. [illegible] COST	179	301	[illegible]	790	477	1507	912	1750	[illegible]	2214	[illegible]	2105
11. [illegible] COST	[illegible]	387	314	[illegible]	[illegible]	1714	1624	2547	[illegible]	2914	2273	4544
12. COST OF [illegible]	5922	17922	13110	39739	30431	81224	59724	164943	93939	244532	136419	325370
TOTAL COST [illegible]	4174	14414	1852	13127	1313	12063	13716	[illegible]	15545	13137	14177	14767
[illegible]	11214	175	1752	4245	6407	14677	19959	43715	51174	67602	99379	147049

1. [illegible] THE [illegible] FALL STUDENTS ENTER IN THE FALL OF FRESHMAN YEARS.
2. TOTAL [illegible] STUDENTS TAKE OUT LOANS FOR EACH [illegible]
3. [illegible] BASED ON AN AVERAGE LOAN OF 1750 DOLLARS [illegible]
4. [illegible] MADE AT THE START OF PERIODS.
5. [illegible] MONTHS
6. [illegible]
7. [illegible] RATE OF 0.25 PERCENT OF THE OUTSTANDING PRINCIPLE FOR YEAR.
8. [illegible]
9. [illegible] LOAN.
10. [illegible] WITH THE INSURANCE COMPANY.
11. [illegible] PAYMENTS.
12. [illegible] OF 7.5 PERCENT.
13. [illegible] OF THE [illegible] PERIOD.
14. [illegible] OF REPAYMENTS LESS EXPENSES.

Estimating Manageable Educational Loan Limits for Graduate and Professional Students*

Dwight H. Horch

Introduction

Educational loan programs have become a major instrument over the past two decades for financing postsecondary educational costs. In retrospect, the initial appropriation of $60 million in fiscal year 1959 for the National Direct Student Loan Program, the only federal loan program in its time, seems trifling in contrast to current borrowing levels, which approached $1.85 billion for the myriad of federal loan programs in fiscal year 1976.

Loan programs have evolved over the years in response to increasing costs at both the undergraduate and post-baccalaureate levels and to perceived societal needs and political pressures. The National Defense Student Loan Program (NDSL), for example, was created in the post-sputnik era to accelerate postsecondary training. The Guaranteed Student Loan (GSL) Program, on the other hand, was enacted to ease the financial burden of college costs on middle income families, as an alternative to tax credits.[1] Other loan programs on the financial aid landscape include the Nursing Loan Program, the V.A. Educational Loan Program, and the Health Education Assistance Loan (HEAL) Program for prospective physicians.

The importance of loans is underscored by the fact that some $1.3 billion were borrowed in 1976 by students through the Guaranteed and Federally Insured Loan Programs. On an individual basis it is reflected in average borrowings of students, which can only be expected to increase in the future. A recent survey of 70,000 postbaccalaureate students in the 1977-78 Graduate and Professional School Financial Aid Service population, revealed that almost one-half (47 percent) reported they had borrowed some amount during their undergraduate

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[1] John F. Morse., "How We Got Here from There - A Personal Reminiscence of the Early Days" in Student Loans: Problems and Policy Alternatives. College Entrance Examination Board, New York, 1977, p. 13.

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* Paper adapted from: Estimating Manageable Educational Loan Limits for Graduate and Professional Students. 1978, Educational Testing Service. Reprinted by permission.

years. And for those unmarried students who had borrowed, the median cumulative educational debts were as follows:[2]

Year in Graduate/ Professional School	Median Cumulative Educational Debt
First	$ 2,684
Second	$ 3,709
Third	$ 5,458
Fourth	$ 7,899

While these debt loads are not particularly alarming, the level of indebtedness may be expected to increase in the future, for a variety of reasons. Hough notes, for example, that the demand for loans, especially by graduate and professional students, is likely to rise, despite projected future enrollment declines.[3]

Hough arrives at this seemingly contradictory conclusion through the following logic chain. As the flow of high school graduates begins to decline, enrollments in institutions of higher education may also be expected to decline. This will create an upward push on tuitions, to the extent that the volume of students declines and the fixed cost base for tenured salaries remains constant.

As costs escalate, pressures toward debt financing will mount at the graduate and professional level in the absence of government intervention in the form of uncategorical grant assistance to institutions or grant assistance to students.

There is a growing concern that increasing debt burdens will create increasingly serious repayment problems for students in the future, and may have unintended pervasive consequences -- such as income maximization behavior of borrowers -- that may conflict with broader social goals. For example, Congress recently enacted the Health Education Assistance Loan Program with a maximum aggregate loan limit of $50,000, an (unsubsidized) 10 to 12 percent interest rate, and a 15 year repayment period. While it can be argued that the income profiles of physicians permit absorption of this level of indebtedness, it can also be hypothesized that heavily indebted physicians may opt for practices in more lucrative nonshortage areas. Another possible consequence of high debt levels for physicians is a further upward push on their professional fees. Similar types of behavorial consequences of borrowing can be hypothesized for other professions, such as law or business.

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[2] D.H. Horch, "Need Analysis at the Graduate and Professional Level: Who Needs It"? Paper prepared for the Student Loan Marketing Association Symposium on Financing Graduate and Professional Education, June 1977, p. 53.

[3] Lawrence A. Hough, Introduction to Student Loan Marketing Association Symposium on Developments in Financing Graduate Education.

The growing importance of loans as an instrument for financing graduate and professional study, and the concern over the repayment legacy they entail, suggests the need to develop a methodology for estimating loan limits that are not overly burdensome.

The balance of this paper is devoted to developing alternative definitions of manageable loan limits, and simulating loan limits for borrowers in selected professions. Because of the key role loans are likely to play in the years ahead at the postbaccalaureate level, this study is restricted to estimating manageable loan limits for graduate and professional students.

Manageable Educational Debts

The question of what constitutes a manageable education debt level has been a vexing one, and, as Johnstone points out "there is little on which to base an answer to the question."[4] There seems to be agreement, however, that the relevant measure of the "oppressiveness of a debt is the relation between future payments and future income. At some level, the ratio of annual repayments to annual income becomes burdensome."[5]

Perhaps the most definitive work in the area of tolerable educational debt levels was undertaken by Daniere in the 1960s.[6] Daniere examined consumer expenditure profiles and concluded that families spend about 90 percent of their after-tax income for consumption, leaving a residual of 10 percent. A priori, he concluded it would be unreasonable to expect borrowers to devote all of their residual income for educational debt repayment and suggested that 6 percent of before-tax income, or 7.5 percent of after-tax income, could be devoted to retiring educational debts, without being overly burdensome.

Daniere concluded that a tolerable educational loan would be defined as one entailing annual repayments equal to, or less than 7.5 percent of an individual's after-tax income.

Hartman, following a different reasoning, concluded that up to 15 percent of the typical college graduate's starting income, before taxes, would not be an overly burdensome educational loan repayment, assuming equal annual installments.[7] He based his conclusion on the assumption that during the payback period students might be willing to accept a level of repayments equal to the increase in their earning power resulting from a college education.

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[4] Bruce D. Johnstone, New Patterns for College Lending, Columbia University press, New York and London, 1972, p. 106.

[5] Robert W. Hartman, Credit for College, New York: McGraw Hill, 1971, p. 14.

[6] Andre Daniere, "The Benefits and Costs of Alternative Federal Programs of Financial Aid to College Students," in The Economics and Financing of Higher Education in the United States: A Compendium of Papers Submitted to the Joint Economic Committee (Washington, D.C.: U.S. Government Printing Office, 1969), pp. 576-578.

Froompkin, in his study of student loans for women,[8] used three tests of repayment burdens to evaluate loan repayment plans:

1. What proportion of a single woman's annual earnings or of the family income of a married woman will be claimed by loans of varied amounts at different maturities?

2. What proportion women will be overburdened by the repayment of loans, where overburden is defined as 6 percent of an unattached single woman's income and 3 percent of the family income of a married woman?

3. What proportion of women are likely to pay for their loans from their own earnings?

Manageable repayment streams, it seems, can be defined in a number of different ways:

- A manageable annual repayment is one that does not exceed 6 percent of the individual's before-tax (or 7.5 percent after-tax) income during the life of the loan (Daniere).

- A manageable annual repayment is one that does not exceed 15 percent of the individual's before-tax starting income (Hartman).

Hartman's definition, which is tied to first-year, starting income, seems especially suited to equal annual repayment installments, because it prohibits educational loan repayments from exceeding a stipulated maximum percentage of income. Tying repayment to a percentage of first year income more or less ensures that the borrower can manage the educational loan installment during the first repayment year. And, in future years, the fixed annual repayment will decline over time as a proportion of income.

Alternatively, the manageable annual repayment may be defined as some fixed proportion of the individual's future annual income during each year of the amortization period. Thus, as the individual's income grows throughout the amortization period, the annual repayments will grow, but the percentage of income devoted to repayments will remain constant.

Another approach to defining what constitutes a manageable debt level is to review Bureau of Labor Statistics (BLS) budget data. Table 1 presents components of the three annual budget standards for an urban family of four in autumn 1976. There is no debt repayment component within the BLS budgets, since they represent budgets required to achieve these alternative living standards, regardless of income.

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[7] Hartman, op cit, p. 19.

[8] Joseph Froomkin, Study of the Advantages and Disadvantages of Loans to Women, Prepared for the Department of Health, Education, and Welfare, December 1974; Distributed by National Technical Information Service, U.S. Department of Commerce, p. 14.

It should be noted that the BLS standards are benchmarks developed by economists, scientists and technicians from goods and services selected to represent a predefined, specified theoretical level of living. BLS points out that "while most families that do any budgeting at all base their budgets on current or expected income, any budget which is to be used as a benchmark for economic or social measurements must take the opposite approach. It must be built up from a list of goods and services representing a specified level of living. When the cost of these goods and services has been determined, it is then possible to ascertain the amount of income required to cover the budget."[9]

The BLS budget standards do not imply that individual families at specified levels actually allocate their incomes in a manner necessarily consistent with the components of the standards. Thus, to a lesser or greater extent, depending upon the budget component and the standard, families have some discretion in how they spend their incomes.

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[9] 3 Standards of Living for an Urban Family of Four, U.S. Department of Labor, Bureau of Labor Statistics, U.S. Department of Labor, Bulletin No. 1570-5, p. 1.

Table 1. Three Annual Budgets for an Urban Family of Four, Autumn 1976

Component	Lower	Intermediate	Higher
Food	$3003	$3859	$4856
Housing	1964	3843	5821
Transportation	767	1403	1824
Clothing	799	1141	1670
Personal Care	265	355	503
Medical Care	896	900	939
Other Consumption[1]	468	869	1434
Total Family Consumption	8162	12370	17048
Other Items[2]	451	731	1234
Adjusted Consumption	$8613	$13101	$18282

[1] Other consumption includes average costs for reading, recreation, tobacco, alcoholic beverages, education, and miscellaneous expenses.

[2] Other items includes allowances for gifts and contributions, life insurance and occupational expenses.

Source: Monthly Labor Review, July 1977, p. 35

A review of the BLS standards in Table 1 reveals two components that appear to be largely discretionary--"other consumption" and "other items." While these could be viewed as discretionary amounts which could be allocated entirely to annual educational debt amortization, such an assumption could conceivably require major budgeting dislocations on the part of the family. On the other hand, it can be argued that an amount approximating the other consumption component of the respective budgets could theoretically be devoted to educational loan repayments without creating an undue strain on the family budget. Thus, manageable annual educational loan repayment could be defined as an amount equivalent to the other consumption component of the respective BLS budget standards.

The data in Table 2 present housing and other consumption budget componets expressed as percentages of the three adjusted consumption budgets. At the BLS lower consumption budget standard, housing costs represent 22.8 percent of the standard and other consumption items represent 5.4 percent of the lower standard. These percentages increase progressively to the intermediate and higher standards. Note the fact that the other consumption component represents between 5.4 and 7.8 percent of the respective budgets, a range that encompasses Daniere's 7.5 percent figure.

For purposes of this study, manageable debt repayment is defined as an amount equivalent to the other consumption component of the respective BLS budget standards. It should be pointed out that the total adjusted consumption budgets in Table 1 exclude federal, state, FICA and local taxes. As such, they represent income after taxes (effective income) needed to achieve each of the three budget standards.

Table 2. Housing and Other Consumption Expenses Expressed as Percentages of Adjusted Consumptions Budgets at Three Levels of Living, Autumn 1976

Component	Lower	Intermediate	Higher
Housing	22.8%	29.3%	31.8%
Other Consumption	5.4%	6.6%	7.8%
Housing plus Other Consumption	28.2%	35.9%	39.6%

If one accepts this definition, the question becomes, "Given a known annual income, how can the annual manageable educational loan repayment be estimated?"

Using the data in Table 1, it is possible to construct a progressive schedule that, at each of the three budget standards, yields expected annual repayments equal to the Other Consumption component. For example, The Other Consumption component (or manageable repayment) represents 5.4 percent of the lower budget standard ($8,610), or $465. At the moderate standard, it is $869 ($465 from the lower standard plus 9 percent of the difference between the amount of the lower and the intermediate standards.)

Table 3 presents a progressive schedule which was constructed to estimate manageable debt repayment from 1976 effective income (income after taxes). At double the BLS higher standard the manageable annual repayment was assumed to be three times the repayment at the higher standard.

Table 3. Formulas for Estimating Manageable Annual Educational Debt Repayment in Autumn 1976 Dollars.

Autumn 1976 effective income[1] (EI)	Manageable Annual Educational Debt Repayment
$ 0- 8,610	5.4% of EI
$ 8,611-13,100	$465 plus 9% of EI in excess of $8610
$ 13,101-18,280	$869 plus 11.0% of EI in excess of $13,100
$ 18,281-over	$1,439 plus 15.7% of EI in excess of $18,280

1. Effective income = Adjusted gross income less allowance for U.S. income taxes, FICA taxes, and state and other taxes.

Effectively, the above formulas result in expecting the following proportions of after-tax income for educational debt repayment: 5.4 percent at the BLS lower standard, 6.6 percent at the BLS intermediate standard, 7.9 percent at the BLS higher standard, and 11.7 percent at twice the BLS higher standard.

Since educational loans are repaid from the student's future income, the ability to repay educational debts can be viewed as a function of the student's future income stream during the amortization period. To estimate aggregate manageable educational loan repayments for graduate and professional students, age-earnings profiles must be taken into consideration. The Bureau of the Census periodically estimates the mean income, lifetime income, and educational attainment of men in the United States. One of the groupings for which these data are available is for men with five years or more of college.

Mean incomes for this group, in 1972 dollars, are presented by age in Table 4. This table reveals that the mean income in 1972 dollars for 26 year old men with five years or more of college was $11,104. The data in the "ratio" column present mean incomes at each age expressed as a ratio of the income for the respective age group to the mean income at the base age of 26. Age 26 was chosen as the base for this group because it is the earliest age at which the majority of graduate/professional borrowers in four year educational programs would begin repaying their loans, assuming a grace period.

Table 4. Estimated Mean Income in 1972 Dollars at Present Age and Age-Earnings Ratios for Males with Five Years or More of Postsecondary Education

Age	Income	Ratio
26	11,104	1.00
27	11,854	1.07
28	12,577	1.13
29	13,273	1.20
30	13,941	1.26
31	14,581	1.31
32	15,194	1.37
33	15,779	1.42
34	16,337	1.47
35	16,868	1.52
36	17,371	1.56
37	17,846	1.61
38	18,295	1.65
39	18,715	1.69
40	19,108	1.72
41	19,474	1.75
42	19,812	1.78
43	20,123	1.81
44	20,406	1.84
45	20,661	1.86
46	20,890	1.88
47	21,090	1.90
48	21,264	1.92
49	21,409	1.93
50	21,528	1.94
51	21,618	1.95
52	21,682	1.95
53	21,718	1.96
54	52,726	1.96
55	21,707	1.95
56	21,660	1.95
57	21,586	1.94
58	21,485	1.93
59	21,356	1.92
60	21,199	1.91
61	21,015	1.89
62	20,804	1.87
63	20,565	1.85
64	20,298	1.83

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 92.

The census data suggest that income wil grow (in 1972 dollars) as a function of age by 7 percent from age 26 to 27, by 13 percent form age 26 to age 28, and so on. The income of males with five years or more of college may be expected to grow by 52 percent between ages 26 to 35 (first 10 years), and by 86 percent by the twentieth year (age 45).

In measuring aggregate manageable debt repayments, which will be made from future incomes, the impact of inflation on income should not be ignored. Accordingly, the projection of furture income streams should account for both inflation and cross-sectional income growth.

The data in Table 4, therefore, need to be updated to reflect inflationary effects from 1972 to future repayment years. Students entering four-year degree programs in 1978-79 would not be expected to begin repayment of their loans until the beginning of 1983. For this reason, the 1972 census income data need to be updated through 1983 for inflation. Actual and projected Consumer Price Index (CPI) increases for the period 1972 to 1983 are presented in Table 5. Based on the actual increase in the CPI from 1972 through 1976, and projected increases through 1983, it is estimated that the CPI will increase by 103.9 percent for the period 1973 through 1983. Therefore, the average 1972 income of $11,104 for a 26-year-old male with five or more years of college, when updated for CPI increases to 1983, becomes $22,641. Further, the average 1972 before-tax income of $16,337 for a 34 year old would grow to $53,092 in 1991, assuming inflation of 103.9 percent from 1972 to 1983, and a 6 percent inflation rate thereafter. Long-range estimates of rises in the CPI are subject to considerable uncertainty. Therefore, for purposes of estimating manageable debt repayments from future income streams, it might be preferable to assume a lower rate of inflation. This would result in the yielding somewhat more conservative estimates of ability to repay from future income streams.

Table 5. Actual and Projected Rises in the Consumer Price Index (CPI): 1972 to 1983

Year	CPI	Percent Increase (1972=Base)
1972[1]	125.3	
1976[1]	170.5	
1977[2]	181.6	
1978	192.1	
1979	202.7	
1980	213.8	
1981	228.4	
1982	241.2	92.3%
1983	255.5	103.9%

[1] Source: Monthly Labor Review, August 1977

[2] Source: Data Resources Inc. Predictions of National Price and Wage Increases.

Table 6 presents estimated earnings profiles and manageable annual and cumulative educational debt repayments for 10 and 15 year amortization periods, assuming repayments begin in 1983. For this analysis, the census age-income ratios for males were assumed to be representative of earnings profiles for the universe of graduate and professional students.[10]

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[10] To the extent that there may be significant differences in starting salaries and age-income ratios (growth profiles) among students in various disciplines and between men and women, one would expect manageable debt loads to vary among disciplines and occupations and between sexes. Moreover, to the extent there may be differences in cross sectional income growth rates among racial and ethnic groups, different manageable debt loads would be implied by the approach.

Note that manageable annual debt repayments were computed for each year using the "effective" or after-tax income formulas presented in Table 3, updated for inflation. Just as inflation of income neeeds to be accounted for, so too do inflationary impacts on the repayment formulas themselves. Formulas for each future year were, therefore, indexed for inflation.[11] Effective income was defined as adjusted annual income (i.e., adjusted for inflation and age growth) less the sum of estimated federal income taxes, FICA taxes and state and other taxes. The allowance for state and other taxes is 8 percent of adjusted income, the amount allowed by uniform methodology fianancial need analysis procedures for famlies whose total income exceeds $10,000.

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[11] See Appendix A, formula 3, which was used to index the annual repayment schedule.

Table 6. Estimated Earnings Profiles and Manageable Annual Educational Loan Repayments for Males with Five Years or More of College, Assuming 6 Percent Inflation After 1983

Loan Repayment Year[1]	Before Tax Income in 1972 Dollars[2]	After Tax Income in Current Dollars	Manageable Annual Loan Repayments	Cumulative Repayments
(1) 1983	$11,104	$16,127	$ 988	
(2) 1984	11,854	18,003	1,129	
(3) 1985	12,577	19,795	1,261	
(4) 1986	13,273	21,803	1,410	
(5) 1987	13,941	23,720	1,550	
(6) 1988	14,581	25,543	1,679	
(7) 1989	15,194	27,560	1,823	
(8) 1990	15,779	29,510	1,966	
(9) 1991	16,337	31,626	2,122	10 Year Amortization ($16,221)
(10) 1992	16,868	33,921	2,293	
(11) 1993	17,371	36,218	2,460	
(12) 1994	17,846	38,902	2,663	
(13) 1995	18,295	41,594	2,862	15 Year Amortization $30,575
(14) 1996	18,715	44,500	3,079	
(15) 1997	19,108	47,396	3,289	

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[1] Assumes entry into a four-year graduate/professional program in 1978-79, exit age 25 in 1982, nine month grace period, and repayments beginning in 1983.

[2] Source: See Table 4.

[3] Assumes 103.9 percent rise in CPI from 1972 to 1983, and six percent annual increases thereafter in before-tax income. After-tax income equals income less allowances for federal taxes, state and other taxes, and FICA taxes.

The far right column of Table 6 presents the cumulative manageable repayments at the tenth and fifteenth years. The outcomes of this analysis suggest that, given a 10 year repayment period, aggregate repayments, graduated to income, of $16,2[illegible]1 would be manageable; given a 15-year amortization period, aggregate repayments of $30,575 would be manageable.[12] It is extremely important to note that these statements assume annual repayments are scaled to income and an inflation rate of 6 percent. Without such scaling, the student amortizing a loan in equal installments could be expected to repay more than a manageable amount during the first years of repayment.

The chart on the next page illustrates the ability of selected professional groups to make annual educational loan repayments over a 15 year amortization period. The chart demonstrates, on average, little difference in ability to repay educational loans of doctoral scientists and engineers, and males with 5 or more years of college. Moreover, the ability of lawyers and physicians to repay educational loans is not markedly different, if physicians are required to begin repayments during internship and residency. Not surprisingly, if physicians are permitted to begin repaying educational loans after the residency period they appear as a group, to theoretically have the ability to make the largest annual repayments.

Conversion of Cumulative Repayments from Future Income into Manageable Loan Principal Limits

In the preceding section, a methodology was presented for measuring manageable aggregate educational loan repayments as a function of future income profiles for a group that may approximate graduate and professional students as a whole.

Having presented this methodology, the question becomes, "What is the aggregate tolerable loan principal (as opposed to repayment), given manageable aggregate repayments?" Naturally, to answer this question, the repayment period and the interest rate must be stipulated, because repayments include both principal and interest.

Table 7 presents a general formula for computing total principal, given monthly repayments, interest rate, and number of months in the repayment period. Table 8 presents denominators for the formula for different repayment periods and interest rates. Table 9 converts the cumulative manageable repayments developed in Table 7 into total tolerable debt principal for a 7 percent interest-bearing loan repayable in 10 or 15 years.

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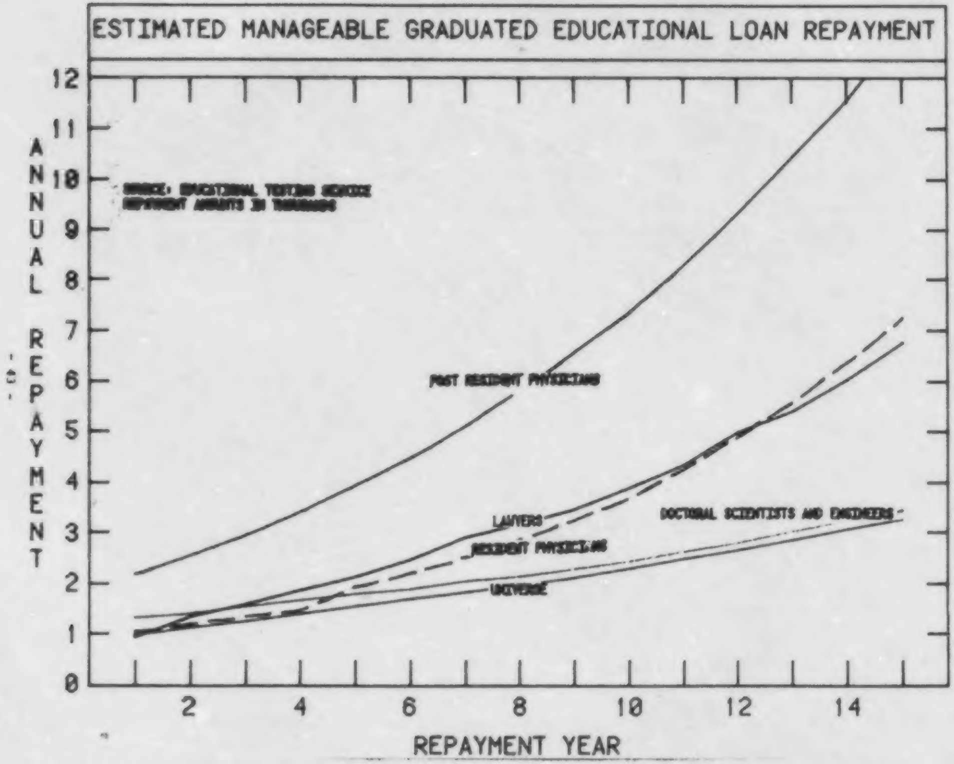
[12] Formulas 1-4 of Appendix A were used to determine cumulative manageable repayments.


ESTIMATED MANAGEABLE GRADUATED EDUCATIONAL LOAN REPAYMENT

SOURCE: EDUCATIONAL TESTING SERVICE
REPAYMENT AMOUNTS IN THOUSANDS

Table 7. Formula for Computing Total Principal Given Monthly Repayments (including Principal and Interest), Interest Rate, and Repayment Period.

$$P = \frac{CR/(12 \times y)}{\left[\frac{R + 12}{(1 + R/12)^{NM} - 1} + \frac{R}{12} \right]}$$

Where:

P = Principal

CR = Cumulative repayment

Y = Number of years in amortization period

R = Interest rate

NM = Number of months in repayment period

Table 8. Formula Denominators by Amortization Period and Interest Rate.

Amortization Period in Years	Interest Rate		
	3 Percent	7 Percent	10 Percent
10	.0096575	.0116117	.0132152
15	.0069067	.0089889	.0107461
20	.0055467	.0077534	.0096503

The data in Table 9 suggest that repayments of $16,221 would be manageable over a 10 year amortization period for a loan bearing 7 percent interest converts into a loan principal of $11,641. Stated differently, the analysis suggests that an aggregate loan limit of $11,641 for the universe of graduate and professional students, may be a manageable loan ceiling for a 10 year amortization period, assuming repayments are scaled to future income. If the amortization period is extended to 15 years, it appears that a $18,896 loan principal ceiling would be tolerable.

The aggregate loan (principal) limit for the Guaranteed Student Loan Program (GSLP) was recently extended to $15,000 for graduate and professional students. This analysis suggests that the $15,000 limit is not unreasonable, provided the 10 year amortization period is extended to 15 years and repayments are graduated or scaled to income. Given a fixed repayment schedule and a ten year amortization period, one could argue that the total debt repayment should not exceed 10 times the manageable repayment during the first year of repayment. If the required equal monthly installment exceeds the manageable monthly repayment the first year, one might hypothesize that undesirable personal and social consequences, such as default, might result. Following this line of reasoning for the example in Table 6, a manageable aggregate GSL loan principal limit for males with 5 or more years of postsecondary training, given an equal monthly repayment schedule, would be about $7,100.

$$\frac{\$988 \times 10 \text{ yrs.}}{120 \text{ months}} \div .0116117 = \$7,090$$

The preceding example highlights the importance of permitting graduate and professional GSL Program borrowers the option of graduated repayments, and suggests that the amortization period should be extended to 15 years for those borrowing in excess of $7,100. Referring back to the manageable annual repayment column of Table 6, it appears that annual GSL repayments, if graduated to allow approximately a doubling of annual payments from the first to the tenth year of repayment or a tripling from the first to fifteenth year, would result in a manageable repayment stream for males with 5 or more years of postsecondary education.

Table 9. Conversion of manageable repayments into total manageable loan principal for alternative amortization periods, at 7% interest, for males with 5 or more years of postsecondary education.

(Assumes 6 percent inflation after 1983)

Item	10 Years (120 Months)	15 Years (180 Months)
Total Manageable Repayment	$16,221[1]	$30,575[1]
Average Monthly Repayment	$135.18	$169.86
Formula Denominator	.0116117[2]	.0089889[2]
Total Manageable Loan Principal	$11,641[3]	$18,896[3]

[1] Source: Table 6

[2] Source: Table 8

[3] Computed as follows: Montly repayments divided by formula denominator.

The preceding example reveals that several variables impinge upon the assessment of manageable educational loan principal limits:

- Length of the amortization period
- Interest rate
- Shape of the age-income profile
- Assumed inflation rate in future years
- Equal installment or graduated repayment option (GRO) schedules
- Starting salary

In summary, the methodology suggested for estimating manageable educational loan principal limits for equal installment repayment plans is outlined below:

1. Mean starting income in constant dollars is updated for inflation to the year in which repayment will begin.
2. Effective starting income in current dollars is computed as the difference between current before-tax starting income less allowances for taxes (federal, FICA, state and other).
3. Repayment formulas (Table 3), indexed for inflation to the first repayment year, are applied to effective income to estimate the manageable repayment during the first repayment year of repayment.
4. Manageable annual repayment based on first year effective income is multiplied by the number of years in the repayment period, and is then converted into a manageable principal limit. Principal limits will vary depending upon the stipulated interest rate and length of the amortization period.

For graduated repayment option (GRO) plans, the six step method for estimating manageable loan principal limits is summarized as follows:

1. Mean starting income in constant dollars is updated for inflation to the year in which repayment will begin.
2. For successive repayment years, mean starting salary is adjusted for inflation and cross sectional growth rates.
3. Estimated effective income for each repayment year is calculated as the difference between before-tax income and federal, FICA, and state and other taxes.
4. The manageable annual repayment formula (see Appendix A, formula 3), indexed for inflation, is applied to effective income for each repayment year.
5. Annual repayments are summed across the amortization period to determine aggregate manageable repayments from future income.
6. Aggregate manageable repayments are converted to manageable principal limits based upon the stipulated interest rate and length of the amortization period.

Because starting incomes and cross sectional income growth rates vary among graduate and professional disciplines, there is no single answer to the manageable loan principal question. As will become more apparent in the next section, one set of loan program features (interest rate, amortization period, scaling of repayments to income) may yield educational loan principal limits that would be manageable for one discipline, but not another.

Manageable Educational Loan Principal Limits for Selected Professional Groups

To test the sensitivity of the methodology for estimating manageable educational loan principal limits, an interactive computer model was developed. The model allows the user to stipulate the following variables: starting income in current dollars, age-income growth ratios, inflation rate, interest rate, and number of years in the pay-back period. It then computes manageable educational debt loads using the formulas in Appendix A.

A series of simulations were run to estimate manageable educational loan principal limits for each of the following groups:

- Males with 5 or more years of college
- Law students
- Medical students, assuming repayment begins during internship
- Medical students, assuming repayment begins after residency
- Doctoral scientists and engineers.

The simulations drew upon income profile data that were readily available from previous studies by other researchers. In addition to simulations based on Bureau of the Census data for males with 5 or more years of college, the simulations for lawyers utilized income profile data published by the Massachusetts Bar Association, those for doctoral scientists and engineers drew upon data published by the National Academy of Sciences; and unpublished income data from the Institute for Demogrphic and Economic Studies were used to simulate manageable educational debt levels for physicians.[12] As a result, the simulated manageable educational loan limits are intended to illustrate the relationship between the hypothetical prospective average (mean) income of selected professional groups during the pay-back period and their theoretical ability to repay educational loans. Because available income profile data for the selected professional groups may not be wholly representative, the reader is urged to interpret the results of the simulations cautiously. Similarly, because the estimates of manageable debt levels are based on group mean incomes at selected ages, the reader is cautioned against inferring that the results are necessarily applicable to individuals.

The results of all of the simulations are highlighted in Tables 10 and 11. Table 10 presents estimated manageable cumulative repayments, including principal and interest, by type of repayment (fixed or graduated), for selected pay-back periods and professional groups. Inspection of Table 10 reveals that, for males with 5 or more years of college, total repayments of $9,900 would be theoretically manageable, given a 10 year amortization period and restricting cumulative repayments to 10 times the repayment that is manageable from the student's income during the first year of repayment. On the other hand, if annual repayments were scaled to income, the cumulative manageable repayment, given a 10 year amortization period would be between $14,700 (if the inflation rate were 3 percent annually) or $16,200 (if the inflation rate were 6 percent annually).

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[12] The age-income profiles and estimated starting incomes for each professional group may be found in Appendices B through E.

Table 10. Estimated Manageable Cumulative Repayments (Principal and Interest) by Amortization Period for Selected Professional Groups

Amortization Period	Males with 5 or more Years of College		Lawyers		Physicians (Repayments Beginning after Residency)		Pysicians (Repayments Beginning in Internship)		Doctoral Scientists and Engineers	
	Equal Repayments	Graduated Repayments	Equal Repayments	Graduated Repayments	Equal Repayments	Graduated Repayments	Equal Repayments	Graduated Repayments	Equal Repayments	Graduated Repayments
10 Years	$9.9	$14.7-16.2[1]	$8.9	$20.9-23.4	$22.0	$39.1-44.2	$10.4	$19.0-21.4	$12.9	$16.7-18.3
15 Years	$14.8	$25.8-30.6	$13.4	$41.7-50.8	$33.0	$77.5-96.7	$15.6	$40.4-49.6	$19.4	$28.3-33.4
20 Years	$19.8	$39.4-50.8	[illegible]	$70.9-95.7	$44.0	$134.3-186.9	$20.8	$73.9-101.8	$25.8	$42.8-55.1

[1] Lower limit assumes 3 percent annual inflation rate; upper limit assumes 6 percent annual inflation rate.

The following findings emerge from the data in Table 10.

- Given equal monthly repayment schedules, physicians could repay more than any other group, assuming their repayments begin after residency. Doctoral scientists and engineers follow physicians in their ability to manage equal monthly repayments, due to their relatively high starting incomes. Interestingly enough, heavily indebted law students would appear to be least well served by equal monthly schedules, due to their comparatively lower first year incomes.

- If repayments were graduated to prospective income, the ordering by ability to repay would be physicians, followed by lawyers, followed by doctoral scientists and engineers. The reordering of lawyers and doctoral scientists and engineers is due to the shape of their respective future income profiles. Lawyers, on average, appear to begin at lower starting incomes than doctoral scientists and engineers. The rate of income growth is much steeper for lawyers; hence, their ability to repay educational loans, where repayments are graduated to income, is greater on average than doctoral scientists and engineers.

Table 11 presents aggregate manageable educational loan principal borrowing limits by interest rate within amortization period for selected professional groups.

For sake of convenience, the results for each group shown in Table 11 will be discussed separately.

Males with 5 or more years of college

For males with five years or more of college, it appears that $8,500 would represent a manageable level of borrowing for a 3 percent interest-bearing loan repayable in equal installments over ten years, such as National Direct Student Loans. For a 7 percent loan repayable in equal installments over 10 years, such as Guaranteed and Federally Insured Student Loans, a limit of $7,100 would be manageable. The lower limit for the 7 percent loan is due to the higher interest rate.

TABLE 11. Estimated Aggregate Manageable Educational Principal Borrowing Limits for Equal Installment and Graduated Repayment Option (GRO) Plans for Selected Professional Groups (Amounts in Thousands)

Length of Repayment Period/Interest Rate	Males with 5 Yrs or More of College		Lawyers		Physicians: Repayments Beginning after Residency		Pysicians: Repayments Beginning in Internship		Doctoral Scientists and Engineers	
	Equal Repay-ments	Graduated Repayment Option (GRO)	Equal Repay-ments	Graduated Repayment Option (GRO)	Equal Repay-ments	Graduated Repayment Option (GRO)	Equal Repay-ments	Graduated Repayment Option (GRO)	Equal Repay-ments	Graduated Repayment Option (GRO)
10 Year Amortization										
3% Interest	$ 8.5	$12.6-14.0[1]	$ 7.7	$18.1-20.2	$18.9	$33.7-38.1	$ 9.0	$16.5-18.4	$11.2	$14.4-15.8
7% Interest	$ 7.1	$10.5-11.6	$ 6.4	$15.0-16.8	$15.8	$28.1-31.8	$ 7.5	$13.7-15.3	$ 9.3	$12.0-13.1
10% Interest	$ 6.2	$ 9.3-10.2	$ 5.6	$13.2-14.7	$13.8	$24.6-27.9	$ 6.6	$12.0-13.5	$ 8.2	$10.5-11.5
15 Year Amortization										
3% Interest	$11.9	$20.8-24.6	$10.7	$33.5-40.8	$26.5	$62.3-77.[illegible]	$12.6	$32.5-39.9	$15.6	$22.8-26.9
7% Interest	$ 9.1	$16.0-18.9	$ 8.2	$25.7-31.4	$20.4	$47.9-59.[illegible]	$ 9.7	$25.0-30.7	$12.0	$17.5-20.6
10% Interest	$ 7.6	$13.4-15.8	$ 6.9	$21.5-26.3	$17.0	$40.1-50.0	$ 8.1	$20.9-25.7	$10.1	$14.6-17.3
20 Year Amortization										
3% Interest	$14.8	$29.6-38.2	$13.3	$53.2-71.9	$33.0	$100.9-140.4	$15.7	$55.6-76.4	$19.5	$32.4-41.6
7% Interest	$10.5	$21.2-27.3	$ 9.5	$38.1-51.4	$23.6	$72.2-100.5	$11.2	$39.7-54.7	$13.9	$23.1-29.6
10% Interest	$ 8.5	$17.0-21.9	$ 7.7	$30.6-41.3	$19.0	$60.0-80.7	$ 9.0	$31.9-43.9	$11.2	$18.4-23.8
Assumed Year in which Repayments Begin	1983		1982		1987		1983		1983	
Estimated Income During First Year of Repayment	$22.6		$21.0		$47.6		$23.5		$28.0	

[1] Lower limit assumes 3 percent annual inflation rate; upper limit assumes 6 percent inflation rate.

These two findings suggest the advisability of (a) considering extension of the NDSL repayment period from 10 to 15 years for graduate and professional students, if repayments are in equal installments, and (b) reviewing both the length of the pay-back period and the equal installment norm for the Guaranteed Student Loan Program.

If repayments were scaled to income, it appears that total borrowings of $12,600 to $14,000 would be manageable for graduate and professional students under the National Direct Student Loan Program, given a 10-year repayment period. Thus, one option would be to extend the NDSL loan maximum from $10,000 to $15,000 and include a graduated repayment option for those whose debts exceed $8,500.

These data also seem to suggest the advisability of considering revision of the Guaranteed Student Loan Program to permit postbaccalaureate students to borrow up to $16,000-$19,000, and to provide them the option of graduated repayments over 15 years if their debt exceeds $7,100.

Whether repayment periods should be extended to 20 years for graduate and professional students is debatable. Extension of the pay-back period to 20 years could have the curious result of expecting this generation of graduate and professional students to simultaneously repay their educational loans and contribute toward their offspring's educational costs. It should be noted, however, that such an extension would significantly increase manageable loan principal limits.

Law Students

It was pointed out earlier that heavily indebted law students because of their relatively modest starting incomes, would appear to be least well served, particularly during the first repayment years, by equal installment loans. Their manageable aggregate loan principal for equal installment loans, when restricted to a proportion of the average first year salary, ranges from a low of $5,600 for a 10 percent, 10 year loan, to $13,300 for a 3 percent, 20 year loan. On the other hand, because of lawyers' typically more rapid income growth experience, graduating repayments to income would enable them to borrow considerably more, yet result in manageable annual repayments. For example, the analysis in Table 11 suggests that law students could comfortably borrow between $18,100 and $20,200, for a 10 year, 3 percent loan (such as NDSL), provided repayments were graduated to prospective income. From the perspective of lawyers' income profiles, it appears as though the current Guaranteed Student Loan aggregate borrowing limit of $15,000 is manageable at 7 percent interest and 10 years for pay-back, provided repayments are scaled to income. On the other hand, it appears that extension of the GSL pay-back period from 10 to 15 years, and graduation of repayments to income, would increase the manageable GSL principal limits of law students to between $25,700 and $31,400.

Even at a 10 percent interest rate for a 15 year pay-back period, a indebtedness of between $21,500 and $28,300 would not appear to be overly burdensome for law students, on an income graduated basis.

Medical Students

Despite the fact that the future income expectations for physicians are typically higher than those for the other groups in this analysis, it does not follow that physicians have unlimited ability to repay educational loans, nor does it follow that they have infinite manageable educational debt ceilings. As with other professional groups for whom debt level analyses were conducted, whether a given level of educational debt is manageable for medical students depends on the terms and conditions of the educational loan program. The data in Table 11, for example, indicate that a manageable debt for medical students ranges from $6,600 for a 10-percent, 10-year equal installment loan (if repayments begin in internship) to $33,000 for a 3-percent, 20 year equal installment loan (if repayments begin after residency).

In terms of specific loan programs, which typically offer equal installment terms, it appears that the manageable limits for medical students are $9,000 for NDSL, $7,500 for GSL, or $17,000 for a 10 percent interest-bearing loan.

The new Health Education Assistance Loan (HEAL) program allows medical students to borrow up to $50,000, at a 10 to 12 percent interest rate for 15 years, and allows them to defer repayment for up to three years of residency. However, it contains no provisions for scaling repayments to income. If repayments were scaled to physicians' income, a $40,000 to $50,000 limit would, on average, probably be manageable. Without such scaling, a $50,000, 10 percent interest bearing HEAL loan, which converts to a equal monthly installment payment of $537, would likely be burdonsome for physicians during the initial repayment years.

Science and Engineering Students

The estimates of aggregate manageable borrowing limits for doctoral scientists and engineers range, for an equal installment loan, from $8,200 (10 percent, 10-years) to $19,500 (3 percent, 20 years). Given current program features, either $11,200 in NDSL or $9,300 in GSL borrowing would be theoretically manageable.

The results in Table 11 also suggest that increasing the GSL pay-back period from 10 to 15 years and scaling repayments to income would increase the manageable principal limits for science and engineering students to between $17,500 and $20,600. One interesting observation is that scaling requirements to income has a smaller effect on borrowing limits for doctoral science and engineering students than for either medical or law students, because of their comparatively lower average rate of income growth over time.

Major Findings and Policy Implications

This study has attempted to develop a methodology for estimating manageable educational loan repayments from the future incomes of selected graduate and professional student groups. Manageable cumulative repayments were converted into aggregate loan principal limits, given alternative interest rates, amortization periods and repayment plans (equal installment or graduated).

Several findings emerge from the simulations. They are:

1. For males with 5 or more years of college the manageable loan limit for NDSL, given equal installments, is $8,500. Holding the 10 year repayment period constant, but graduating repayments to income would raise the manageable NDSL limit to between $12,600 and $14,000. Graduating GSL repayments to income and extending the GSL pay-back period from 10 to 15 years would result in manageable GSL limits of between $16,000 and $18,900.

2. Of the groups analyzed, heavily indebted lawyers would appear on average to be less well served by equal installment loan repayment plans because of their typically modest starting incomes. Permitting them the option of repayments scaled to income would raise their manageable NDSL limits to between $18,100 and $20,200 or their GSL limit to between $15,000 and $16,800. Allowing both income graduated repayments and extending the amortization period from 10 to 15 years would raise their manageable NDSL limit to between $33,500 and $40,800 and the manageable GSL limits to between $25,700 and $31,400.

3. Despite the fact that the future income expectations of physicians are higher than those of the other groups analyzed, it does not follow that medical students have adequate educational debt ceilings. Given a fixed or equal installment repayment plan, a 15-year amortization period, and a 10-percent interest rate the manageable loan limit for physicians is estimated at [illegible]. Scaling repayments to income would result in a manageable loan principal limit of between $40,100 and $50,000 for 10 percent, 15-year loans, with repayment beginning after residency.

4. For doctoral science and engineering students, an $11,200 NDSL or a $9,800 GSL limit would be manageable. For a 10-year amortization period, graduation of repayments to income would increase their NDSL ceiling to between $14,400 and $15,800; the tolerable limit for GSL would be between $12,000 and $13,100.

The thrust of this study has been to quantify manageable education loan limits given permutations of repayment period, type of repayment schedule (equal installment or graduated), interest rate, inflation rate, and hypothetical prospective income growth profiles. The study is intended to aid in discussions of alternative loan policies, because loan programs are an important ingredient of current federal policy toward financing graduate and professional education. As graduate and professional school costs continue their upward spiral, there will likely be more pressure to increase borrowing limits for graduate and professional students. The results of this study suggest that borrowing limits, repayment terms and amortization periods may require restructuring; otherwise graduate and professional students could well face an unmanageable repayment legacy. If loans are to play a key role in the future financing of graduate and professional education, and if the Guaranteed or Federally Insured Program is to be the federal student aid vehicle for this purpose, then it may be advisable to consider certain technical changes to the program:

(1) In order to maximize manageable debt loads of graduate and professional students, their undergraduate educational indebtedness should be minimized. This goal can be achieved through expansion of undergraduate grant programs such as the Basic Educational Opportunity Grant (BEOG) program and the Supplementary Education Opportunity Grant (SEOG) program.

(2) Graduate and professional students whose educational indebtedness, from all sources, exceeds an agreed-upon threshold amount, should be offered Graduated Repayment Option (GRO) plans, and the option of a 15 year repayment period.

(3) Separate threshold limits, aggregate principal limits, and graduated repayment schedules should be developed for meaningful occupational clusters and should be based on an assessment of their manageable educational debt loads.

While loans are currently an important financing mechanism for graduate and professional students, they should not be viewed as a panacea either by students, policy analysts or financially stressed graduate and professional schools. Fellowship programs and experiential work-study learning opportunities for students in the arts, humanities, sciences, and professions are needed to insure equal access to graduate and professional school, as well as to foster intellectual excellence.

APPENDIX A

Formulas for Estimating
Manageable Educational Loan Repayments
Assuming First Repayment
Begins in 1983

(1) Adjusted Income (AI) in year y

$$AI_y = S * (1 + r)^{y-1} * I_y$$

Where: AI = Adjusted Income

S = Starting salary

r = inflation rate

y = specified year (i.e. first, second, third) of repayment period

I_y = Age-Income Ratio in year y

(2) Effective Income (EI) in year y

$$EI_y = AI_y - FT_y - FICA_y - ST_y$$

Where: AI_y = Adjusted Income in year y of the amortization period

FT_y = Federal taxes in year y, based on 1977 tax schedules

$FICA_y$ = Amount of social security taxes in year y computed as follows:

$$FICA_y = 1293 \times (1.05)^{y-1}$$

ST_y = State and other taxes in year y, computed as follows:

$$ST_y = AI_y \times .08$$

(3) Annual Repayment (AR) in year y

Effective Income in year y	Annual Repayment in year y (AR_y)
\$0 to $(12870 \times (1+r)^{y-1}$	$.054 \times EI_y$
$12871 \times (1+r)^{y-1}$ to $19548 \times (1+r)^{y-1}$	$(695 \times (1+r)^{y-1}) +$ $(.09 \times (EI_y - (12870 \times (1+r)^{y-1}))$
$19549 \times (1+r)^{y-1}$ to $27328 \times (1+r)^{y-1}$	$(1299 \times (1+r)^{y-1}) +$ $(.09 \times (EI_y - (19548 \times (1+r)^{y-1}))$
$27329 \times (1+r)^{y-1}$ and over	$(2151 \times (1+r)^{y-1} + (.157 \times EI_y -$ $(27328 \times (1+r)^{y-1}))$

(4) Cumulative Repayments for amortization period N years in length

$$CR = \sum_{y=1}^{N} AR$$

Where CR = Cumulative Repayments

N = Number of years in amortization period

Y = Year

(5) Tolerable Debt Limit (Principal) P

$$P = \frac{CR/(12 \times y)}{\dfrac{i/12}{(i/12)^{(N\times12)} - 1)} + i/12}$$

Where: i = annual interest rate

APPENDIX B

INCOME OF LAWYERS

1973 INCOME OF LAWYERS IN MASSACHUSETTS SURVEY				
Years Admitted[1]	Mean[1] Income	Estimated Age	Age Midpoint	Mean Annual Growth Rate
Less Than 1	$ 8,903	24	24	..........30%
1 - 4	$15,135	25 - 28	26	..........10.5%
5 - 9	$25,047	29 - 33	31	...........4.7%
10 - 14	$31,585	34 - 38	36	...........4.0%
15 - 19	$38,445	39 - 43	41	...........1.5%
20 - 29	$42,773	44 - 53	49	

[1] Source: Economic Survey Conducted by the Massachusetts Bar Association 1973
Massachusetts Bar Association, 1975, page 5.

Estimated Starting Salary:

$11,600 in 1973 Dollars
x 1.81 Estimated Rise in CPI from 1973 - 1982
(133.1 to 241.2)
$ 21.0 = Estimated Starting Salary in 1982

ESTIMATED MEAN 1973 INCOME OF LAWYERS BY AGE

Age	1973 Income	Ratio
25	$11.6	1.00
26	$15.1	1.30
27	$16.6	1.43
28	$18.4	1.59
29	$20.3	1.75
30	$22.4	1.93
31	$25.0	2.16
32	$26.0	2.24
33	$27.2	2.34
34	$28.4	2.45
35	$29.8	2.57
36	$31.6	2.72
37	$32.4	2.79
38	$33.7	2.90
39	$35.1	3.03
40	$36.5	3.15
41	$37.9	3.27
42	$38.5	3.32
43	$39.1	3.37
44	$39.7	3.42
45	$40.3	3.47
46	$40.9	3.53
47	$41.5	3.58
48	$42.1	3.63
49	$42.7	3.68

APPENDIX C

Professional Income of Physicians

PHYSICIANS MEAN PROFESSIONAL INCOME
IN 1977 DOLLARS

Age	1977 Income	Ratio 1	Ratio 2
26	16.7	1.0	
27	17.7	1.06	
28	18.9	1.13	
29	19.9	1.19	
30	24.0	1.44	1.00
31	26.3	1.57	1.10
32	28.6	1.71	1.19
33	30.9	1.85	1.29
34	33.3	1.99	1.39
35	35.6	2.13	1.48
36	37.9	2.27	1.58
37	40.3	2.41	1.68
38	42.6	2.55	1.78
39	44.9	2.69	1.87
40	47.3	2.83	1.97
41	49.6	2.97	2.07
42	51.9	3.11	2.17
43	54.2	3.25	2.26
44	56.6	3.39	2.36
45	58.9	3.52	2.45
46	61.2	3.66	2.55
47	63.1	3.78	2.63
48	64.0	3.83	2.76
49	64.7	3.87	2.70

Source: Unpublished Data, Institute of Demographic and Economic Studies

Ratio 1 - Assumes repayments start during internship

Ratio 2 - Assumes deferment during one year of residency and three years of internship.

ESTIMATED STARTING INCOME OF PHYSICIANS

In 1983, at age 26

$16,700 = 26 year old's income in 1977 dollars

x 1.407 Rise i[illegible] CPI from 1977 to 1983
(1[illegible]6 to 255.5)

$23,496 = Estim[illegible] mean 1983 income of 26 year old.

In 1987, at age 30

$24,000 = 30 year old's income in 1977 dollars

x 1.776 Estimated rise in CPI from 1977 to 1987
(181.6 to 322.6)

$42,624 = Estimated mean income of 30 year old
in 1987 dollars.

APPENDIX D

Income of Doctoral Scientists and Engineers

ESTIMATED MEDIAN 1983 STARTING INCOME OF DOCTORAL SCIENTISTS AND ENGINEERS

Estimated Income of 26 year old in 1973 dollars................................	$14,600
Rise in CPI from 1973 to 1983 (133.1 to 255.5)..................................	1.92
Estimated 1983 starting income =	$28,032

UNITED STATES DOCTORAL SCIENTISTS AND ENGINEERS

Median Annual Salary by Age -- 1973

	Median 1973 Salary 1	Age Midpoint	Mean Annual Growth Rate
Under 30	$15,500	28	
			.....1.032
30-34	17,500	32	
			.....1.023
35-39	19,600	37	
			.....1.022
40-44	22,000	42	
			.....1.018
45-49	24,200	47	
			.....1.0065
50-54	25,000	52	
			.....1.0024
55-59	25,300	57	
60-64	25,800	62	.....1.004
Over 64	24,700	—	—

[1] Source: Doctoral Scientists and Engineers in the United States: 1973 Profile, National Academy of Sciences, March 1974, page 25, Table 10.

INTERPOLATED MEDIAN 1973 SALARY OF DOCTORAL SCIENTISTS AND ENGINEERS

Age	1973 Salary	Ratio
26	14.6	1.00
27	14.9	1.02
28	15.5	1.06
29	16.0	1.10
30	16.5	1.13
31	17.0	1.16
32	17.5	1.20
33	17.9	1.22
34	18.3	1.25
35	18.7	1.28
36	19.2	1.32
37	19.6	1.34
38	20.1	1.38
39	20.5	1.41
40	21.0	1.44
41	21.5	1.47
42	22.0	1.51
43	22.4	1.53
44	22.8	1.56
45	23.3	1.60

Student Loan Policy: A Modest Agenda for Change

Dennis A. Kernahan

Most discussions of the legislative process suggest that responsible solutions to complex problems require thorough knowledge of the situation to be remedied, the ability to devise practical means for remedying that situation and the drafting of understandable solutions which serve as a guide to those charged with administering the law. The wisdom of this observation lies in its academic purity--as a standard to which those charged with legislating should aspire. More to the point is an observation from an article in The Wall Street Journal that it should not be too surprising when something turns out far differently from the way Congress, some federal agency, or some corporation meant. After all, notes the article, these decisions are comparatively narrowly conceived and often taken with relative suddenness--an observation not without applicability to current legislative events.

That this symposium on federal student loan programs is an attempt to move the legislative process towards a more rational consideration of the issues is commendable, although I suspect that a leap from the reality of The Wall Street Journal to the model legislative process is impossible. Rather, we operate somewhere in between being a prisoner of our own experience and biases and the impartiality that that policy analysis deserves. It is predictable, therefore, that certain people will observe that the preferred approach to a review of federal policy is to sort out the possible effects and consequences of that particular policy as it now operates and not embrace new approaches quite so precipitously. A second approach is to be skeptical of the conventional wisdom and urge a departure from the tenets upon which current programs are built. If I must admit to a preference or choose a point of departure for this presentation, it is the former point of view. Not because of blind faith in the value of incrementalism but because conditions as I view them do not call for the wholesale abandonment of the philosophy upon which current loan programs, especially the GSLP, are based.

That there is a definite relationship between dollars, access, choice and educational achievement is evident. There are loan programs, therefore, which focus on a variety of special groups and exist for a variety of social, political, and economic reasons--some persuasive, some not so persuasive. There are proposals for loan programs of first resort, last resort and some that probably no one wants to resort to. I would prefer, however, to direct my comments to the federal guaranteed loan programs, especially the Guaranteed Student Loan Program. Looking

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at the GSLP which was forged out of the tuition tax credit debate of the early 1960's, one can sense that it was and still is regarded as a pragmatic solution to the issue of capital availability for financing postsecondary education. All things being equal it should have proved to be a creative response to a social and economic problem.

In looking at the GSLP statutory language one can appreciate the mechanisms created to provide student loan credit but you get no sense of the justification or reasoning behind the approach nor of the conflicts that this legislation was intended to resolve. Leaving aside the political circumstances which gave rise to the GSLP, the philosophy behind the program is still creditable. Lack of alternative capital sources without federal incentives and guarantees and the inadvisability of putting appropriations into the budget for federal loan capital puts a premium on the utilization of those programs which are based on federal or state guarantee of loans and other subsidies--the purpose of which is to entice private capital into a socially useful extension of credit. While this may make fiscal sense there are no doubt social consequences resulting from this policy. For as Alexander W. Astin observes in Preventing Students From Dropping Out, "From the standpoint of public policy, loans represent one of the most controversial sources of financial aid. Proponents of loan programs are attracted by the relatively low cost, arguing that limited resources can be made available to many more students if they are heavily concentrated in loan programs. Some object to burdening students with long-term debts, while other point to allegedly high default rates." But to paraphrase the public service ads of one major corporation--there are no absolute solutions, only intelligent choices. Choices have been made and more choices must be made in the future.

I think it is instructive to look at the original statute governing the GSLP as a point in a line of continuous development up to and including the proposals embodied in the Middle Income Student Assistance Act and the College Opportunity Act. Legislative changes along this continuum include a series of adjustments in the administrative structure of the program, eligibility criteria, and pattern of incentives, including the institution of a special allowance, the tying of that to a formula pegged to the 90-day Treasury bill, an increased potential yield, and the institution of a secondary market, Sallie Mae. This legislative intervention in support of a continued flow of private capital into the GSLP is evident in the pending Middle Income Assistance Act and the College Opportunity Act which contain certain provisions broadening the eligibility of student borrowers for interest subsidies and provide an extra one-half of one percent yield on student loans which are in a payout status as well as assure lenders a minimum yield of 8 percent on their student loans.

The purpose of these provisions has been to support the operations of the GSLP so that dollars from private sources continue to be available to student borrowers. Thus, the choices made over the past ten to twelve years have been in terms of refining and redefining the operations of a system of credit built on the extension of private capital with governmental supports. The ultimate goal is to achieve a proper balance between political, social, and economic considerations in the extension of credit--with the assumption that a proper blend of lenders will make the process work.

Has this been successful and will it continue to be an efficient and effective means of allocating loans to students? It is certainly no news to say that the GSLP has been subject to a great deal of criticism. Some of this criticism appears to be based on theoretical or doctrinal grounds and some on actual program failures. Doctrinal grounds often focus on the mechanism proper and the implications that the current delivery system has in terms of access to dollars and flexibility and efficiency of payment. Criticism of program performance has centered around administrative issues such as program regulations which tend to inhibit participation; the relative responsiveness of federal versus state administration of the program and loan default experience. The last issue is often discussed in terms of consumer loan performance criteria with scant acknowledgement of the risks that a student loan program implies and what a truly acceptable default level should be.

It would be naive to suggest that all the program performance issues have been addressed and that criticisms of the current delivery system are diminished by the actual experience of billions of dollars in credit outstanding under the GSLP. However, many program administration issues were largely dealt with in 1976 and some additional time is needed for performance and related trends to be assessed. If trends pointing to the development of state agencies and more effective program administration occur combined with incentives contemplated in pending legislation, then the question of the efficiency of the delivery system can be subjected to more complete scrutiny. Prior to this scrutiny, the issue of capital availability needs to be more systematically addressed so that the information as to unmet need is less anecdotal and more quantifiable.

A strong knowledge base dealing with the question of capital availability for certain groups or types of borrowers will enable interested parties to fashion better policy responses and incidentally deal with such questions as NDSL continuation and the propriety of loan program consolidation. On the whole I feel that the GSLP can respond to the needs of the majority of borrowers if there is a consistency of purpose about the program as reflected in regulations, the development of state administrative structures and support for secondary market operations.

It is, however, those borrowers on the margin who must also be dealt with fairly if a viable federal loan policy is to exist. The exploration of the question of capital availability will do much to move this discussion forward. Likewise, the question of who can borrow, how much and for how long should be thoroughly explored before suggestions are made to increase borrowing limits or restructure repayment terms.

At the risk of sounding too simplistic, let me review my rather cryptic remarks on the subject of federal loan policy. Before suggesting policy changes, let us look at the major shortcomings in the system requiring a policy response. They are: What are the true dimensions of the problems of capital availability? and a corrollary question--What special classes of borrowers are inadequately served in terms of ability to borrow and repay? Additional knowledge in these areas will enable us to address the following: (1) the specific unsatisfied financial needs of student borrowers; (2) the terms on which loan capital should be made available; (3) whether existing governmental programs should be expanded or coordinated to serve borrower needs and; (4) whether a new government entity would address these concerns more effectively and efficiently given their administrative and budgetary implications.

If the GSLP is given a chance to work it will meet a reasonable amount of loan demand. This assertion does not overlook the need for resolution of administrative problems or the need to properly structure new state agencies and current guarantee programs so they are responsive to a majority of borrowers on a state-by-state basis. Nor can this overlook the importance of the federal role in attempting to meet shortcomings in the availability of credit.

Equally important is meeting the needs of the students who can find no credit or who need more credit than is currently provided and on terms that are equitable and susceptible to reasonable repayment. Here the current loan mechanisms must be thoroughly reviewed in terms of providing capital access and borrowing flexibility to meet the needs of marginal borrowers at both ends of the spectrum--the borrower who can't obtain a loan due to economic status or geography, and the one whose needs are greater than the average.

The resolution of these questions will condition the direction of private capital and the role it will play in providing loan funds for postsecondary education.

Improvements in the efficiency of the current GSLP delivery system in terms of its administrative configuration, the regulatory burden attendant to the ownership of loans, and the pattern of incentives for continued lending under the program provide a firm basis for effective utilization of the GSLP as the main source of loan funds to students.

In an environment where there is a pattern of support for lenders that is reflected in good administration, reasonable regulations and meaningful incentives, Sallie Mae can work with them in support of their lending efforts. Over the past few years, the corporation has developed a variety of programs directed toward meeting the credit needs of a majority of lenders including commercial banks, thrift institutions, direct state lenders and educational institutions who are lenders. In the area of the Health Education Assistance Loan Program, Sallie Mae stands ready to provide its secondary market services consistent with the program terms as articulated by the Congress and implemented by the Department of Health, Education, and Welfare. Sallie Mae's role is to help assure the availability of capital through its secondary market and warehousing advance facilities. The corporation's structure implies a balance between the dictates of reasonable profitability and management controls and the primary objective of support of the GSLP and HEAL programs.

As attention begins to focus on the reauthorization process for student aid programs, the effectiveness of the current loan program delivery system should serve as a starting point for consideration of federal loan policy. However, the definition of the problem is a prerequisite to reasonable discussion of the solution. Agreement on a set of policy objectives for the GSLP dealing with the issues of default, capital availability, the appropriate levels of loan indebtedness and repayment systems can serve as a guide to evaluating the effectiveness of the current system as well as a challenge to proponents of the GSLP to respond in a flexible and imaginative manner.

Hopefully, this will lead to a reasoned consideration of the options and an objective evaluation of the strengths of the current system vis-a-vis the promises of alternative systems.

A Case for the Status Quo — With Better Management

Jay W. Evans

A. FEDERAL, STATE, AND PRIVATE PROGRAMS OF LOW-INTEREST INSURED LOANS TO STUDENTS IN INSTITUTIONS OF HIGHER EDUCATION

Section 421(a) of the Higher Education Act of 1965 (as amended), Title IV, Part B, states that the purpose of the guaranteed student loan programs is to enable the Commissioner (1) to encourage states and non-profit private institutions and organizations to establish adequate insured loan programs for students in eligible institutions... (2) to provide a Federal program of insured student loans for students or lenders who do not have reasonable access to a state or private non-profit program.

Appropriations have been made and the Commissioner was given the legislative authority to develop and execute a plan designed to encourage the establishment of student loan programs by each state (whether operated by an agency of the state or by a non-profit private organization designated by the state). The U. S. Office of Education operates the program in those states not choosing to create their own administrative unit. There are currently 28 state programs and approximately $1.5 billion is being guaranteed annually in the GSL program, with over half that amount being guaranteed by the existing 28 state guaranty agencies.

B. THE PRESENT SITUATION

The Higher Education Assistance Agency operates the program in Pennsylvania, and last September our program passed the $1 billion volume mark since its beginning in June, 1964. The program has and

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continues to work rather well as a viable option in helping students meet their college costs for some very good reasons. Among them are:

1. Pennsylvania lenders are paid a 1/4% state lender participation fee on their loan volume as an administrative cost offset.

2. Lenders are given the flexibility to set their own lending restrictions and maximum loan limits within the GSL framework.

3. The eight Agency regional offices throughout the state have given lenders, students and educational institutions "finger tip" contacts to information and resolution of problems.

4. Agency staff, working cooperatively with representative lenders, have generated a series of services to alleviate burdensome paperwork procedures to the benefit of both computer and manually operated lender operations. These include such things as combining forms, computer-produced notes, computer-produced renewal applications mailed directly to the borrower, Agency operated out-of-school verification and notification to lenders, pre-claim assistance on delinquent accounts, and an Agency operated Sallie Mae service center.

5. Successfully proposed state legislation, subsequently enacted by the General Assembly, providing corporate tax breaks to lenders and authorizing wage garnishments on delinquent borrowers.

C. THIRD PARTY LENDERS

A "third party lender" is the primary source of funds for commercial lending throughout the country. Student attitude toward repayment of guaranteed loans is no different than that of commerical loan borrowers, in that their attitude is directly attributed to their views at the time the loan is made. Repayment obligation of guaranteed student loans to a commercial "third party" lender carries much more authority than if the source of funds is a government agency.

Experience over the years has shown that proper collection work starts with the borrower at the time the loan is made. Attitude toward repayment begins here. My point is: commercial lenders are the best method of guaranteed student loan assistance and that by providing lenders with adequate return and reasonable workloads to place and collect their loan portfolios, will ultimately lead to their maximum participation in the program.

D. LOW DEFAULTS VERSUS WIDE ACCESS

If the purpose of this program is to produce low-risk loans, those which would not ever go into default for other than death or total and permanant disability, it would be incumbent on the guarantors to place stringent restrictions on obtaining these funds, such as, co-signers, credit checks, and limitations on reinsurance payment rates; but what would happen to access? Loans would dry up and students who need the loans to hedge higher costs and reduced family discretionary dollars would not be able to receive them. On the other hand, if the intent of the program is to give a loan to virtually every person who applied through minimal eligibility requirements, there is the in-born threat of dealing with delinquent accounts, and to quote a phrase, "something you obtain too cheaply is taken too lightly."

E. WHY CHANGE WHAT WE HAVE UNTIL WE KNOW WHAT EFFECT THE '76 AMENDMENTS HAVE MADE?

It is obvious that sufficient time has not passed to determine what effects the GSL program amendments of 1976 have made; not only toward increasing greater program access, but also keeping delinquency rates within tolerable parameters. One of the primary reasons why access to the program has not been universal in the past is because of the numerous legislative and regulatory changes enacted and implemented every few years. The program needs left alone (or only minor changes permitted) to test whether less tinkering may very well result in increased effectiveness in the areas of collection and placement of loans. One change we do need though, is the authority to obtain information from both the Internal Revenue Service and the Social Security Administration to help state guaranty agency and USOE in tracking delinquent borrowers. Such authority will greatly improve collection efforts and lower default rates throughout the country. Also, the student loan program should be exempt from Truth-in-Lending and Privacy Act requirements. The mandatory provisions in both these pieces of legislation force both lenders and borrowers through unnecessary "hoops" and stymie the basic intent of ready access to needed funds to pay college costs. The collateral for educational loans should appropriately be (non-tangible) future earnings. Automobile loans, mortgages, etc., are tangible purchases which can be sold if default occurs, but loans for education cannot be replaced with tangible property. It was on this basis, Congress agreed these educational loans should be exempt from bankruptcy for five (5) years following the date the borrower is required to begin repayment.

F. FOR WHOM SHOULD THE PROGRAM BE TARGETTED?

A well functioning guaranteed student loan program was never intended to be targetted for low-income students exclusively since most other federal and state student assistance resources are targetted to those students. As we know, these other federal and state programs have never been fully funded; and therefore, by forfeit, the guaranteed student loan programs has had to become the primary financial resource for low-income students. It is and has been my opinion for some time, that the program should be targetted for middle-income students primarily, but without excluding those low-income students who need a "filler" in the student aid package to permit them to attend the institution of their choice without going into unreasonable indebtedness.

G. SUGGESTIONS FOR LEGISLATIVE CHANGE

I am not in favor of changing the method of getting loans to students and I feel that the primary source of funds should come from commercial third party lenders. As I pointed out, the needed legislative changes are in the area of strengthening the hands of state agencies and the federal government in the areas of tracking delinquent borrowers to prevent defaults. Overall, the guaranteed student loan program has met the challenge of frustration caused by our inflationary economy as can be witnessed by annual volume increases. This fiscal year through March, the number of borrowers in the Pennsylvania program versus the same time period last fiscal year is up 20 percent (68,300 to 81,800) and the value of guaranties is up 42.6 percent ($103.7 million to $147.9 million). Other states are registering similar gains. The positive thing about the program is that its critics call for an overhaul because of all the unpleasant publicity given to the FISL program's default rate, but fail to turn the stone over to see 95 percent plus of the graduated borrowers are on scheduled repayment. It's this little publicized latter statistic that proves the program is working--as is.

APPENDICES

Comparison of Seven Federal Student Loan Programs

Guarantee Agency Profiles

COMPARISON OF SEVEN FEDERAL STUDENT LOAN PROGRAMS

	NDSL (ED)	GSL (ED)	HEAL (ED)	HPSL (PHS)	NSL (PHS)	VA	LEEP (JUSTICE)
LENDER	Eligible schools, using Federal and school funds (ratio of 9 - 1) [illegible] revolving fund	Eligible banks, [illegible] pri- vate capital [illegible]	Eligible banks, [illegible] using private capital	Eligible health professions schools, using Federal and school funds (ratio of 9 - 1) revolving fund	Eligible nursing schools, using Federal and school funds (ratio of 9 - 1) revolving fund	Federal Government (VA)	Eligible school using Federal grant funds
STUDENT ELIGIBILITY	U.S. national or permanent resident, or intending to become such; [illegible] at least ½ time at an eligible school. Graduate or undergraduate. Satisfactory progress. All lenders may [illegible] additional criteria for schools [illegible]	U.S. national or permanent resident or intending to become such; [illegible] at least ½ time at an eligible school. Graduate or undergraduate. Satisfactory progress. All lenders may impose additional criteria. [illegible] schools.	U.S. national, [illegible] graduate study [illegible] health professions [illegible] eligible school [illegible]	U.S. national or permanent resident, [illegible] enrolled full-time at eligible school. Selected by school. Graduate or undergraduate	U.S. national, [illegible] enrolled at least ½ time in eligible nursing diploma or degree program. Graduate or undergraduate. Selected by school.	[illegible] veterans [illegible] enrolled in approved course of study. May only be used during service or within 10 years of discharge. Must be used at school in U.S.	U.S. national, [illegible] for full-time study in [illegible] related degree program. Must agree to enter and remain in law enforcement work, otherwise must repay at 7% interest. Graduate or undergraduate. For pre-service loan, may not be freshman. No need test.
LOAN LIMITS	$2,500 limit for first 2 years of higher education (and for up to 2 years of vocational schools); $5,000 limit for 4 years of higher education; $10,000 aggregate limit for higher education (with graduate and undergraduate)	For undergraduates [illegible] — $2,500 annual, $12,500 aggregate. For graduate + professional — $5,000 annual, $25,000 aggregate with some exceptions (particular agencies and lenders may have lower limits.)	$20,000 per year, $80,000 aggregate. [illegible] students limited to $7,500 annual and $30,000 aggregate.	Tuition plus $2,500 per year determined by school according to "need". No aggregate limit.	Up to $2,500 per year dependent on "need" determined by school. $10,000 aggregate limit.	Up to $2,500 per 9 mo. academic year, plus [illegible] for summer. Aggregate maximum depending on length of service.	$2,200 per academic year, plus $750 for summer. No aggregate limit.
INTEREST RATE	5%, beginning 6 mo. after leaving school	7%, beginning 6-12 mo. after leaving school for subsidized loans, beginning immediately for students not qualified for subsidy. (New regulations will make all loans subsidized.)	12% maximum, payable throughout life of loan. (Interest can be accrued to principal during school and [illegible] of [illegible] repayment.)	7% beginning 12 mo. after completion of training	5% beginning 9 mo. after leaving school	7% beginning 9 mo. after leaving school	7% for life of loan, payable only for periods when not working in law enforcement (35-40% don't find such employment).
REPAYMENT	10 year limit beginning 6 mo. after leaving school. Deferment up to 3 years each for Armed Forces, VISTA, Peace Corps. Further ½ time enrollment.	10 year limit from beginning of repayment (9-12 mo. after leaving school) [illegible] deferment for Armed Forces, VISTA, Peace Corps, for full-time study at eligible schools, and for 1 year of unemployment, and for approved independent graduate study program.	10-15 years, beginning 9-12 mo. after completion of training (including residency and internship). Deferment for up to 3 yrs. — Armed Forces, Peace Corps, VISTA, PHSC, internship and residency, or for full-time study at an eligible school [illegible] year [illegible] of loan.	10 years, beginning 12 mo. after leaving school. Deferment up to 3 years for Armed Forces, and Peace Corps, PHSC, and for up to 5 years for further advanced professional training	10 years, beginning 9 mo. after leaving school. Deferment to 3 years — Armed Forces, Peace Corps, PHSC, and to 5 years for full-time nursing training	10 years, beginning 9 mo. after leaving school. No deferments	Repay at rate of [illegible] per month only if failure to work in law enforcement field.
CANCELLATION	For service as full-time teacher at schools with many low-income students (15% 1st & 2nd yr., 20% 3rd & 4th, 30% 5th yr.) of [illegible] students [illegible]. [illegible] For military service in hostile area ([illegible] for each year of such service, up to 50% of loan). For death, total and permanent disability, and bankruptcy	Death, total and permanent disability, and bankruptcy	Repayment [illegible] at [illegible] rate of [illegible] per year for service in NHSC, or for service in designated shortage areas. (Must commit for 2 years.) For death, disability and bankruptcy	60% repayment by U.S. if agrees to practice in designated shortage areas for 2 years. Additional 25% if serve for 3rd year. Obligation cancelled if failure to complete training and [illegible] and can't be expected to resume training for 2 years. [illegible] applies to health students with NDSL or GSL. Death, disability	60% repayment by U.S. if agrees to practice in designated shortage areas for 2 years. Additional 25% cancellation if serve for 3rd year. Up to 85% of obligation cancelled for work as full-time professional nurse in public/non-profit health institution. (Both apply to nursing students with GSL or NDSL.) Death, disability	None	Forgiven at rate of 25% for each year of employment in public law enforcement after completing training.

	[illegible]	[illegible]	HEAL [illegible]	[illegible]	[illegible]	VA	LEEP [illegible]
[illegible]	Higher Education Act, Title IV, Part [illegible], as amended	[illegible] Act, Title [illegible], Part [illegible], as amended	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] Act of 1968 and 1976, as amended
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	To produce quality and improve the quality of the [illegible] system
[illegible]	[illegible]	[illegible]	[illegible]	Begun in [illegible]	Begun in 1965	Begun in 1975 In FY 1977 about [illegible] vets with [illegible]	Begun in 1968 In FY 1977, [illegible] students aided to attend [illegible] schools

		[illegible]	[illegible]		[illegible]	[illegible]	VA and LEEP
[illegible]	Dependent [illegible] Family Income			Family Income			
	Less than [illegible]	[illegible]	[illegible]	Less than [illegible]	[illegible]	[illegible]	No data available
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	[illegible] or more	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
				[illegible] or more	[illegible]	[illegible]	
	Independent [illegible]	[illegible]	[illegible]				
	Graduate [illegible]	[illegible]	[illegible]				
	Minority participation	[illegible]	[illegible]	Minority participation	[illegible]	[illegible]	
	[illegible]			[illegible] most recent data available.)			

GUARANTEE AGENCIES PROFILES

Agency	Rate of Insurance Premium	Annual Loan Limits Below Maximum: Undergrad	Annual Loan Limits Below Maximum: Graduate	Aggregate Loan Limits Below Maximum: Undergrad	Aggregate Loan Limits Below Maximum: Graduate	Insurance Covers: Interest	Insurance Covers: Nonsubsidized Loans	Insurance Covers: Half-time Students	Insurance Covers: Students Going Out-of-State	Insurance Covers: 100% of Prin.	Insurance Covers: Up to $10,000 for Health Prof.	Endorsers	Permit Schools to be Lenders	Restrictions on Eligible Schools	Residency Requirements
MAINE	[illegible]%					X	X	X	X	X	X	No	X	No Home Study	6 mos. in [illegible] at in-state school
MARYLAND	[illegible]%					X	X	X	X	X	No	Permitted	X	None	Dependent - 1 day Independ - 6 mos. Non-resident at in-state schools relation to MD lend.
MASSACHUSETTS	1%					X	X	X	X	X	X	Permitted	X	None	Permanent resident of MA
MICHIGAN	1% One-time Fee					X	X	X	X	X	No	Permitted	X	None	None
MINNESOTA	1%					X	X	X	X	X	Last 2 years only	Permitted	X	None	None
NEVADA	[illegible]%					X	X	X	X	X	No	No	X	No Home Study	6 mos. in [illegible] at in-state school
NEW HAMPSHIRE	1%					No	X	X	X	X	No	Permitted	No	None	Legal resident of NH
NEW JERSEY	1%					X	X	X	X	[illegible]	X	No	X	No correspondence schools	6 mos. prior to application or at in-state school
NEW YORK	1%					X	X	X	X	X	X	No	X	None	Resident or approved in-state school

GUARANTEE AGENCIES PROFILES

		Annual Loan Limits Below Max		Aggregate Loan Limits Below Max		Insurance Covers									
Agency	[illegible]	Undergrad	Graduate	Undergrad	Graduate	Interest	[illegible]	Half-time Students	Students going Out-of-State	[illegible]	[illegible]	Endorser	Permit Schools to Be Lenders	Restrictions on Eligible Schools	Residency Requirements
NORTH CAROLINA	[illegible]					X	X	X	X	X	No	No, but considering	X	No No [illegible]	1 year as a non-student
OHIO	[illegible]														
OKLAHOMA	1%	12 mos. [illegible]	12 mos. [illegible]			X X	X X	X No	X X	X X	X No	Permitted Permitted	X X	None None	Resident or at in-state school Resident of OK
OREGON	[illegible]					X	X	X	X	X	No	Permitted	X	None	1 year
PENNSYLVANIA	[illegible]	[illegible]			[illegible]	X	X	X	X	X	X	Permitted	X	[illegible]	30 days prior applic. for those going out-of-state All others—6 mo. prior to loan approval
RHODE ISLAND	1%	[illegible]	[illegible]		[illegible]	No	X	X	X	Yes after [illegible]	No	Permitted Required on [illegible] loans	No	No [illegible] Must offer [illegible] course of study	
TENNESSEE	None					X	X	X	X	X	No	Required	X	None	Having permanent domicile in TN

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GUARANTEE AGENCIES PROFILES

Agency	Rate of Insurance Premium	Annual Loan Limits Below Maximum		Aggregate Loan Limits Below Maximum		Insurance Covers:						Endorser	Permit Schools to be Lenders	Restrictions on Eligible Schools	Residency Requirements
		Undergrad.	Graduate	Undergrad.	Graduate	Interest	Nonsubsidized Loans	Half-time Students	Students Going Out-of-State	100% of Prin.	Up to $10,000 for Health Prof.				
VERMONT	.5%					X	X	X	X	X	No	Permitted	X	No corres. schools	1 year
VIRGINIA	.5%					X	X	X	X	X	No	Permitted (to be changed w/ new agreements)	X	None	10 days prior to entering VA school
WISCONSIN	1%					No, but will if lender used due diligence	Same as for interest	X	X	X	X	Permitted	X	None	None
USAF	.75%					X	X	X	X	X	X	Permitted In LA required for married students	X	No Home Study	None

THE UNDERGRADUATE STUDENT GOVERNMENT
THE PENNSYLVANIA STATE UNIVERSITY

Statement concerning the Federal Loan Programs

before the PostSecondary Education
SubCommittee, House of Representatives
May 30, 1979

Gentlemen, thank you for the opportunity to appear before you and express students views on the programs in question. My name is Bonnie Northrop and I am currently a senior at the Penn State University. I also work in our Student Government in the Office of the Federal Liaison which monitors the Congress's actions on Educational Issues. We realize the importance of the decisions made by your body and therefore greatly appreciate the opportunity to express our opinions concerning the various issues.

Penn State was designed to be an institution of higher learning that would give quality education at an affordable price to the industrial classes. Since 1970 our tuition has more that doubled and we look for another increase in the fall. Our room and board prices skyrocket, and are reflected in increased costs again passed on to the students. Also, the costs of supplies and books are very high- I pay almost $80. per term in books alone.

The State Government has not been very generous either. This year again we only recieved a 5% increase in our appropriations. The school has cut back in alot of areas however, it is hard to imagine where else they can cut.

The result of all of this is higher and higher costs to the students. The added increases to the BEOG program through the passage of the Middle Income Student Assistance Act (95-10854) helped, however, many still have to borrow heavily in order to afford rising school costs. These loan programs are the focus of your hearings today.

The whole financial aid spectrum is interrelated and therefore it is hard to express our discontentment or satisfaction with one aspect without understanding how the other programs affect it. Therefore in order to illistrate our opinion on the loan programs let me site a personal incident that is felt by many students.

In the spring, I fill out perhaps 4-5 forms concerning financial aide for the next year. The problem is not so much with the forms themselves but with the fact that none of them are due at the same time or available to fill out at the same time. I am not the best file clerk so many times it is hard to gather up all the information needed for the forms. There is also the added problem that many of the forms and much of the information needed is at home or being sent home. I am an independent student, but for my dependent friends, they also have to send the forms home to their families for them too to fill out.

But, we don't expect to not have any hassles. So the forms are filled out and sent in. By chance you have misinterpreted one of the questions, you will recieve another letter in the mail at a later date, which will again result in trying to gather your data together or shipping the mail home to be redone.

But, we don't expect to not have any hassles. So, we have applied for the BEOG, the NDSL and the PHEAA grant and the GSL. Then you wait. Summer comes and I usually never visit my permenant address, and many live on the shore and work or go away somewhere else, away from home. If this is the case, again there are delays if any additional information is needed by the various agencies. These delays result in no sure money when you start school in the fall.

When the year rolls around again, many are faced with paying the majority of their tuition and room and board costs totally by themselves because this award or this loan or this grant has not come through yet. In April after I had already paid for my last semester's costs, I finally recieved a PHEAA grant. My BEOG award was not calculated until the middle of my winter term. Because of these inconviences, I had to take out a GSL loan plus a NDSL loan plus borrow money from relatives.

What would the students like to see in the loan programs. Well first a better timing system so the number of forms that are requested can be done in the same period of time. This way there would not be so much variation in the information given. Secondly, there is a need for more grass roots level financial aide offices and officers. If there could be a reginal system devised to handle complaints and forms, it seems to us that it could personalize the system more and have more time to handle individual problems. Our financial aide office at Bouke in the University doesn't have the needed manpower to handle all of the students adequately. In order to run a massive program effectively, there needs to be enough qualified people to help in its operation.

Increasing the manpower could also help with the default rate problem. I have never really sat down with a financial aide officer and was told of the responcibilities concerning my loan and the repayment schedule. Many when they take out an NDSL are not aware of the obligations. Also the nine months following graduation are hectic and transient ones for most, so many don't know where to even have their mail sent. Perhaps the reginal systems could also set up a program where information about the students could be kept in a master computer and say if I moved to Denver, I could stop in the office there and make a payment or find out about starting a schedule.

Reading others ideas concerning the programs, we also would like to express our agreement with the idea of extending the civil jobs that a graduate can engage in that would give him breaks on his repayment of the various loans. A student, or graduate should not have to settle for a nonsatisfying job just so he can pay back his loans. This job may lock hime into something that he doesn't like or that is even in his major, but has to keep because he is straddled with such high debts.

In closing, I would just like to express our philosophies concerning the ideals in higher education. Many speak of school and its financing in the same plane as they do mortaging for a home. This we feel is a wrong idea because education is the basis of our society. My education, or any of the 64,000 students at the varous campuses of the university, will perhaps give us a better paying job, but will also benefit society as a whole. We would like to see as many people as possible be enrolled in the schoool, because one can never have a TOO educated populace. Today's crisises can only be solved if we dedicate time and money inot educating the young so they can be prepared to face and hopefully solve them.

Loans are a very big help in furthering ones education, however the money needed cannot just come from loans for then you are strapping a young adult with a horrendous financial obligation in the beginning of his career. The loans need to stay at as low a cost to the student as econ omically feasible. It would be a tragedy for the schools to be out pricing many intelligent scholars. Education is a right, and an obligation for all. We must be willing to pay for it.

Again, we thank you for this opportunity to speak to your committee concernin g the loan programs. Best success in your decisions. It's encouraging to see the government devote this time and effort into understanding the various programs and its good to see that education is not being forgotten by our elected official. Have a good day.

AMERICAN ASSOCIATION OF DENTAL SCHOOLS
1625 MASSACHUSETTS AVENUE, N.W.
WASHINGTON, D.C. 20036
202/667-9433

June 8, 1979

Honorable William Ford, Chairman
Subcommittee on Postsecondary Education
Committee on Education and Labor
U.S. House of Representatives
619 House Office Building, Annex 1
Washington, D.C. 20515

Dear Mr. Chairman:

The American Association of Dental Schools would like to comment on the Guaranteed Student Loan program and the National Direct Student Loan program, both of which are being considered by the Subcommittee on Postsecondary Education in hearings on the reauthorization of the Higher Education Act. We generally support these programs under their existing structure, but we suggest certain improvements that we believe would increase their responsiveness to student needs, particularly the needs of health professions students, who are faced with extremely high educational expenses. A large portion of the students expenses are in the form of tuition, fees, and equipment. Before commenting directly on the student assistance programs, some explanation for the increases in dental school tuitions seems appropriate.

Tuition in most dental schools is high and sharp increases have been realized in the last few years. These increases are principally due to the rapidly accelerating cost of operation, equipment, the decrease in federal institutional support and the dental schools' efforts to comply with assurances that are necessary to obtain what federal institutional support remains.

Equipment and educational program costs represent a substantial portion of tuition increases. Most dental schools engaged in major new construction and expansion efforts between 1965 and 1975 in order to meet the challenge posed by the Congress to train more dentists. The equipment that was installed at that time needs to be modernized or replaced because of frequent use and new technology. Like most other equipment, inflation has driven the price of replacement skyward. Without federal support much of the cost of this equipment must be translated into higher tuitions. Educational costs have increased because of higher utilities, faculty and staff salaries and overhead.

In addition, federal institutional support in the form of capitation reached a peak in 1974 and has been declining since that time. Indeed the Administration has proposed total elimination of capitation in its fiscal year 1980 budget. In order to obtain this necessary support schools have been required to provide certain assurances including maintenance of high enrollment.levels and either increases in that enrollment by a statutory percentage or establishment of remote site training programs. Either option means higher educational program costs. To maintain competent faculties and ensure quality dental education in light of cuts in federal institutional support, schools have been forced to pass along many of their costs to dental students in the form of tuition increases.

Because students are faced with these necessarily high tuitions, and other costs they must have adequate and responsive student assistance programs available to them. The National Direct Student Loan program and the Guaranteed Student Loan program are two programs that have been effective. We believe that several improvements might make these good programs even better.

The National Defense Student Loan program should be adequately capitalized by the Federal government and loans should be made available to students on a long term basis. The schools should manage the servicing of the loans and should be responsible for collection. In turn, the institutions should receive a given percentage for administration. Tough management and accountability should be required of schools managing these funds.

The aggregate amount of loan money available to a student should be raised from $10,000 to $20,000 for graduate and professional students in the National Direct Student Loan program and from $15,000 to $25,000 in the Guaranteed Student Loan program. This should help students keep pace with spiraling costs. We recommend that provisions be made for a graduated repayment of principal and interest over a period of time consistent with anticipated increases in the borrower's income after graduation. This would help ease the financial burden of the recent dental school graduate when income is limited and the cost in setting up a practice is high. It would be very helpful if a specific provision could be made for debt consolidation on the part of the borrower, without the lender losing any "guarantee" protections. This feature would make loans more attractive for both lender and borrower.

We hope that these recommendations will be helpful to the Subcommittee in its deliberations. If we can be of assistance or provide further information, please contact us. Thank you for providing the opportunity for us to make these comments.

Sincerely,

Harry W. Bruce, Jr., D.D.S.
Executive Director

HWB/jf

REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

THURSDAY, MAY 31, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2257, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Biaggi, Simon, Peyser, Weiss, Buchanan, and Petri.

Staff present: Thomas Wolanin, staff director; Patricia F. Rissler, deputy staff director; and and William Clohan, minority assistant education counsel.

Mr. Ford. The Subcommittee on Postsecondary Education will convene this morning for the purpose of continuing hearings on reauthorization of the Higher Education Act and related measures.

Today's hearing will continue our consideration of student financial assistance programs authorized by title IV of the Higher Education Act.

In our hearing yesterday we began consideration of the student loan programs, the guaranteed student loan program, and the national direct student loan program.

Our hearing this morning will continue on that topic and our witnesses this morning will include representatives of the State higher education executive officers, and the banking community.

We start with a panel consisting of Carol Wennerdahl, chairman of the legislative committee, National Council of Higher Education Loan Programs; David Laird, deputy executive director, Minnesota Commission on Higher Education; and Eileen Dickenson, president, New York State Higher Education Services Corp.

Will you come forward, please. Without objection, the prepared statements presented to the committee by this panel will be inserted in full at this point in the record and you may proceed to comment on your statements or add to them as you deem most appropriate.

[Prepared statement of Carol Wennerdahl follows:]

Statement by

CAROL WENNERDAHL, CHAIRMAN, LEGISLATIVE COMMITTEE
NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS

Before the

SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
UNITED STATES HOUSE OF REPRESENTATIVES

Thursday, May 31, 1979
9:30 a.m.

Mr. Chairman and Members of the Subcommittee:

It is indeed a privilege for my colleagues and I to have this opportunity to present our views concerning the upcoming legislative reauthorization of the program we administer. Our organization is comprised of the agencies which guarantee loans made to students by commercial lenders and others. In a couple of weeks, when the new agency in the State of Washington signs its contracts with the Commissioner, the number of states which are served by guarantee agencies will be at 40. This is an increase of fifteen in the last 2 1/2 years.

This significant increase in the number of guarantee agencies is due to the passage of the "Education Amendments of 1976." After studying the relative performance of the existing guarantee agencies as compared with the Federally administered insured loan program, the Congress provided incentives for the balance of the states to create agencies.

We believe the "Education Amendments of 1976" to be a great success. It is true that the program has not yet reached its full potential in every state. However, the growth over the last two years has been as great as the systems supporting the program could withstand. This would be true for any other system you could devise. Loan volume during fiscal year 1978 exceeded the previous year's by almost 40%. We are experiencing a similar increase this year.

As requested by Chairman Ford, earlier this year we submitted our organizations suggestion's for amendments to be considered during the reauthorization process. Like many of the other national educational organizations, our proposal requests that the Congress not change the basic structure of the program. Rather, we suggest some very slight "fine tuning." Our suggested amendments can be found at the end of this statement.

One issue which does need your immediate attention in advance of the reauthorization process concerns the legislated ceiling on the yield paid to lenders in our program. When the 1976 amendments were passed, the yield to be paid to lenders was fixed to float with the rates of 91-day Treasury Bills. This formula was chosen because it was found that the fluctuations in those government obligations fairly accurately reflected fluctuations in our lenders' costs of acquiring funds which they would lend under our program.

In the deliberations preceding the passage of the 1976 amendments, no one guessed that the rate on Treasury Bills, and concurrently, our lender's costs of funds, would escalate as rapidly as they have in the last couple of years. However, the ceiling on the lender yield—which everyone thought was adequate a couple of years ago—is now threatening to reduce the yield below the formula specified in law. Unless action is taken during the month of June by the Congress, lenders will not receive the full amount under the formula for this fiscal quarter. I understand that discussions have taken place between HEW and Chairman Ford's office concerning some immediate relief of this

PROBLEM. WE ALSO ARE INDEBTED TO CONGRESSMAN BIAGGI FOR HIS LEADERSHIP IN ADDRESSING THIS ISSUE, AND WE HOPE THAT THE MEMBERS OF THIS SUBCOMMITTEE WILL GIVE ANY CORRECTIVE LEGISLATION WHICH IS BROUGHT BEFORE THEM THEIR SYMPATHETIC CONSIDERATION.

A FEW WEEKS AGO, THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE APPEARED BEFORE THIS SUBCOMMITTEE TO GIVE HEW'S VIEWS CONCERNING THE NEEDS FOR CHANGES IN THE EXISTING PROGRAMS. ALTHOUGH THE SECRETARY DID MAKE IT CLEAR THAT THE VIEWS IN HIS STATEMENT REPRESENTED HEW'S VIEWS AND NOT NECESSARILY THE ADMINISTRATION'S, HE DID RAISE SOME PROVOCATIVE QUESTIONS WHICH NEED TO BE ADDRESSED.

AS YOU MIGHT GUESS, WE TAKE MORE THAN MILD EXCEPTION TO THE SECRETARY'S ASSERTION THAT THE ROLE OF THE GUARANTEE AGENCIES LEADS TO "EXCESSIVE COMPLEXITY AND UNNECESSARY COSTS" BECAUSE THOSE ROLES VARY "MARKEDLY FROM STATE TO STATE." WE CAN ONLY BELIEVE THAT THE SECRETARY'S STAFF HAS SERIOUSLY MISINFORMED HIM. THE 1976 LEGISLATION PROVIDED INCENTIVES FOR GUARANTEE AGENCIES TO STANDARDIZE THEIR STUDENT ELIGIBILITY CRITERIA, MAXIMUM LOAN AMOUNTS, AND OTHER ITEMS. TO DATE, 38 OF THE 40 AGENCIES HAVE ACHIEVED SUCH STANDARDIZATION, WITH ONLY LOUISIANA AND OKLAHOMA STILL PENDING.

THE SECRETARY PAINTED A PICTURE OF A PROGRAM WHICH WAS BESET BY PROBLEMS, AND HE BLAMED THOSE PROBLEMS ON "MIDDLEMEN" WHO HE BELIEVED MERELY ADDED PROGRAM COSTS. HE SUGGESTED INSTEAD INSTEAD A PROGRAM WHERE THE FEDERAL GOVERNMENT WOULD RAISE ALL OF THE MONEY AND THE SCHOOLS WOULD DISTRIBUTE ALL OF THE FUNDS. YET WHEN HEW HAD THE OPPORTUNITY LAST YEAR TO PRACTICE WHAT IT PREACHED, IT DECLINED.

The loan program which HEW established in the District of Columbia is a good example. HEW has acquired a source of capital which can be lent to students who are residents of the District or who are attending school in the District. That program could have provided a model for some of the features of the national student loan bank suggested by the Secretary in his March 20 statement before this Subcommittee. However, in constructing the District of Columbia program, HEW proved it shared our view with respect to the value of "middlemen." It had the option of allowing the schools to determine student eligibility according to prescribed criteria. It further had the option of letting the school do the necessary paperwork and forward the papers for loan disbursement. But when the chips were down, HEW acknowledged the prudence of having a third party interview the borrower in person. Therefore, each applicant—or in some exceptional cases, the borrower's parents—must meet personally with an HEW employee. It is our understanding that this process caused HEW to send many applications back to the schools and further caused several conversations with financial aid counselors criticizing their procedures or decisions. We firmly believe that if it is true that "middlemen" add some administrative costs to the program, these costs are insignificant compared to the amount of program losses these persons prevent.

This, however, is not the only example where the Secretary's recommendation to this Subcommittee is in direct

CONFLICT WITH HIS OWN STAFF'S EXPERIENCE. THE SECRETARY SUGGESTED A NATIONAL STUDENT LOAN BANK WHICH WOULD BE, IN EFFECT, A GIGANTIC NDSL-TYPE PROGRAM WITH THE SCHOOLS ORIGINATING ALL OF THE LOANS. THIS SUGGESTION WAS MADE EVEN THOUGH THE RECORD SHOWS THE NDSL PROGRAM WITH A CONSIDERABLY HIGHER DEFAULT RATE. THE HEW ANSWER TO THIS PROBLEM WOULD BE TO REQUIRE A THIRD-PARTY SERVICER OF THE LOANS. HOWEVER, HEW'S OWN DATA WILL SHOW THAT THE SCHOOLS NOW USING SUCH A SERVICER DO NOT HAVE A BETTER RECORD. HEW KNOWS, AS DO WE, THAT THERE ARE OTHER CAUSES FOR HIGHER LOSSES ASSOCIATED WITH SCHOOL-ORIGINATED LOANS.

IT WAS NOT CLEAR FROM THE SECRETARY'S STATEMENT AS TO WHAT WHETHER THERE WOULD BE LIMITS ON THE NUMBER OR TYPE OF STUDENT THE NATIONAL STUDENT LOAN BANK WOULD SERVE. HOWEVER, IF YOU WOULD READ HEW'S CORRESPONDENCE WITH THE MEMBERS AND OFFICERS OF OUR ORGANIZATION, IT IS CLEAR THAT THE CURRENT HEW POSITION IS THAT EVERY STUDENT AT EVERY SCHOOL IS ENTITLED TO A LOAN UNLESS HIS COSTS ARE FULLY MET BY A COMBINATION OF OTHER STUDENT AID PROGRAMS. IF THIS POLICY WERE TO SURVIVE IN THE CREATION OF A NATIONAL STUDENT LOAN BANK, WE WOULD, IN EFFECT, HAVE A NATIONAL POLICY THAT EVERY STUDENT ON EVERY CAMPUS IN AMERICA WOULD BE ABSOLUTELY ENTITLED TO $2,500 IN FEDERALLY GENERATED CAPITAL, IF ONLY IN THE FORM OF A LOAN.

IT IS DIFFICULT TO PREDICT WITH CERTAINTY WHAT WOULD HAPPEN IF SUCH A POLICY BECAME THE LAW OF THE LAND. I SEEM TO RECALL THAT THE EDUCATIONAL COMMUNITY IN WASHINGTON AND ELSEWHERE WERE VERY RECENTLY EMBROILED IN A DEBATE AS TO WHETHER IT WAS HIGHLY INFLATIONARY TO HAVE CAMPUS-WIDE ENTITLEMENT TO $250 IN EITHER A BASIC GRANT OR A TUITION TAX CREDIT. I REMEMBER THAT REPRESENATIVES OF THE ADMINISTRATION, AS WELL AS MEMBERS OF THIS SUBCOMMITTEE, PREDICTING THAT SCHOOLS WOULD ACT ACROSS THE COUNTRY TO RAISE THEIR PRICES TO CAPTURE THAT AMOUNT. USING THE SAME LOGIC, IT WOULD SEEM THAT ANY PROGRAM OF CAMPUS-WIDE ENTITLEMENT WOULD CAUSE THE SAME DILEMMA.

THERE IS NO CLEAR ANSWER AS TO HOW SCHOOLS WOULD USE—OR ABUSE—SUCH A PROGRAM. IT IS ALMOST IMPOSSIBLE TO JUDGE THE INSTITUTIONAL BEHAVIOR OF THE 1980'S BY WHAT TRANSPIRED DURING THE 60'S AND THE 70'S. ONE SAFE PRESUMPTION IS THAT INSTITUTIONAL ATTITUDES TOWARDS STUDENTS AND LOANS WILL CHANGE AS ENROLLMENTS DECLINE. THE EXPERTS PREDICT THAT RECRUITMENT OF STUDENTS BY SCHOOLS WILL BECOME MORE CUT-THROAT IN THE NEXT DECADE. WE HAVE NO PRECEDENT TO STUDY OF AN EDUCATIONAL INDUSTRY WHOSE FUTURE EXISTENCE IS THREATENED UNLESS THEY CAN FIND NEW EDUCATIONAL MARKETS. THE ONLY EXAMPLE WHICH SEEMS TO HAVE ANY RELEVANCE AT AT ALL IS THE PROPRIETARY SCHOOL INDUSTRY OF THE EARLY 1970'S AND ITS SUCCESSFUL USE OF THE LOAN PROGRAM IN ATTRACTING STUDENTS.

THERE IS ONE OTHER ISSUE WHICH WAS ADDRESSED IN THE SECRETARY'S STATEMENT WHICH MUST BE MENTIONED; NAMELY, STUDENT ELIGIBILITY FOR THE GOVERNMENT SUBSIDY OF INTEREST ON HIS LOAN.

THE SECRETARY SUGGESTED THAT INTEREST SUBSIDY BE AWARDED ON THE BASIS OF A STUDENT'S FINANCIAL NEED. IT SEEMS TO ME THAT IF THE CONGRESS WISHES TO SERIOUSLY CONSIDER THIS SUGGESTION, IT MUST ADDRESS THREE PROBLEMS. THE FIRST PROBLEM IS LARGELY POLITICAL AND INVOLVES FACING ANY POTENTIAL CONSEQUENCES OF UNRAVELING THE PROMISES MADE IN THE PASSAGE LAST YEAR OF THE MIDDLE INCOME STUDENT ASSISTANCE ACT. THE SECOND PROBLEM IS THE HUMAN PROBLEM OF WHAT THIS EXTRA BURDEN WILL DO TO THE STUDENTS WHO ARE BORROWING. LAST, AND THIRD, THERE IS THE PRACTICAL PROBLEM OF WHO WILL MAKE THE LOAN. THE "EDUCATION AMENDMENTS OF 1972" DID PLACE A FINANCIAL NEED CRITERIA ON INTEREST SUBSIDY ELIGIBILITY. THOSE WHO OBSERVED THE WEEKS FOLLOWING THE ENACTMENT OF THAT LEGISLATION MUST AGREE THAT IT ALMOST KILLED THE PROGRAM. THE ADMINISTRATIVE COSTS ASSOCIATED WITH THE COLLECTION OF NON-SUBSIDIZED LOANS MADE PROGRAM PARTICIPATION SO UNATTRACTIVE TO LENDERS THAT THE LOAN VOLUME PLUMMETTED ALMOST OVERNIGHT.

MR. CHAIRMAN, BY ANY MEASURE OF SUCCESS, THE "EDUCATION AMENDMENTS OF 1976" ARE A HUGE SUCCESS. THE PROGRAM IS GROWING BY LEAPS AND BOUNDS, BUT NOT OUT OF CONTROL. IT ALREADY IS STRAINING, BUT THANKFULLY NOT BREAKING, THE ABILITY OF THE TEAM OF GOVERNMENT AND PRIVATE INDUSTRY TO SERVICE SUCH A MASSIVE PROGRAM. HOWEVER, THE SUCCESS OF ANY NEW PROVISIONS CAN NOT BE ACCURATELY JUDGED IN SUCH A SHORT TIME. WE ARE GRATEFUL FOR THE UNDERSTANDING SHOWN BY CHAIRMAN PERKINS IN HIS STATEMENT ON APRIL 26 OF THIS YEAR BEFORE THE SUBCOMMITTEE ON LABOR-HEW APPROPRIATIONS. FOLLOWING IS AN EXCERPT FROM THAT STATEMENT:

> "MR. CHAIRMAN, FORTY OF OUR STATES HAVE ESTABLISHED STATE AGENCIES TO DATE AND OVER A DOZEN OF THESE ARE VERY NEW, INCLUDING THE STATE AGENCY IN KENTUCKY. THEY HAVE DONE AS THE CONGRESS HAS ASKED AND NOW WE MUST GIVE THEM THE PROMISED RESOURCES AND A REASONABLE PERIOD OF TIME TO FULFILL THE CONGRESS' EXPECTATIONS."

ONCE AGAIN, MR. CHAIRMAN, WE ARE GRATEFUL FOR THIS OPPORTUNITY TO TO PRESENT OUR VIEWS, AND WE WOULD BE HAPPY TO ENTERTAIN ANY QUESTIONS WHICH YOU AND MEMBERS OF THE SUBCOMMITTEE MIGHT HAVE.

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extended so that the total repayment period is not less than five years,

(C) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid, during any period (i) during which the borrower is pursuing a full-time course of study at an "eligible institution", or is pursuing a course of study pursuant to a graduate fellowship program approved by the Commissioner, (ii) not in excess of three years during which the borrower is a member of the Armed Forces of the United States, (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973, or (v) during a single period, not in excess of twelve months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment, and any such period shall not be included in determining the ten-year period or the fifteen-year period provided in clause (B) above,

(D) provides for interest on the unpaid principal balance of the loan at a yearly rate, not exceeding the applicable maximum rate prescribed and defined by the Secretary (within the limits set forth in subsection (b)) on a national, regional, or other appropriate basis, which interest shall be payable in installments over the period of the loan except that, if provided in the note or other written agreement, any interest payable by the student may be deferred until not later than the date upon which repayment of the first installment of principal falls due, in which case interest that has so accrued during that period may be added on that date to the principal,

(E) provides that the lender will not collect or attempt to collect from the borrower any portion of the interest on the note which is payable by the Commissioner under this part, and that the lender will enter into such agreements with the Commissioner as may be necessary for the purposes of section 437,

(F) entitles the student borrower to accelerate without penalty repayment of the whole or any part of the loan,

(G) provides that, in the case of each loan insured by the program, the eligible institution attended by the borrower at the time of the loan will be notified of such insurance and the name of the lender making the loan, and such notification will be made either by (i) the prompt transmittal of such information to the institution by the insurer or the lender, or (ii) a requirement of the insurer, as a condition of its insurance, that the lender shall transmit any checks for the proceeds of such loan directly to the eligible institution for delivery to the borrower, * * *

* * * * * * *

SUGGESTED AMENDMENT OR SUBSTITUTE

Section 427 (a)(2)(C) of the Higher Education Act is amended by adding a new division (vi):

"(vi) during a period, at the request of the borrower, during which the borrower is serving an internship, the successful completion of which is required in order to receive professional recognition required to begin professional practice or service;"

* * *

RATIONALE/EXPLANATION

TITLE IV—LOANS NCHELP

A student borrower required to serve an internship before beginning the professional practice or service for which he has prepared himself, and in conjunction with which a debt has been incurred, is not presently provided for in authorized deferment condition.

To achieve a reasonable degree of equity in treating the repayment of a guaranteed student loan, the intern should be allowed to deferment from regular repayment during the initial period of required internship.

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* * * (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973, or (v) during a single period, not in excess of twelve months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment; (N) provides that in the case of each loan insured by the program that the eligible institution attended by the borrower at the time of the loan will be notified of such insurance and the name of the lender making the loan, and such notification will be made either by (i) the prompt transmittal of such information to the institution by the insurer or the lender, or (ii) a requirement of the insurer, as a condition of its insurance, that the lender shall transmit any checks for the proceeds of such loan directly to the eligible institution for delivery to the borrower; (O) provides that funds borrowed by a student are disbursed by check payable to the order and requiring the endorsement of such student; and (P) requires the borrower to promptly notify the holder of the loan concerning any change of address. (2) Such an agreement shall— (A) provide that the holder of any such loan will be required to submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan; (B) include such other provisions as may be necessary to protect the financial interests of the United States and promote the purposes of this part, including such provisions as may be necessary for the purpose of section 437, and as are agreed to by the Commissioner and the State or nonprofit private organization or institution, as the case may be; and (C) provide for making such reports, in such form and containing such information, as the Commissioner may reasonably require to carry out his function under this part, and for keeping such records and for affording such access thereto as the Commissioner may find necessary to assure the correctness and verification of such reports.	Section 428(b)(1)(M) of the Higher Education Act is amended by adding a new division (vi): "(vi) during a period, at the request of the borrower, during which the borrower is serving in an internship, the successful completion of which is required in order to receive professional recognition required to begin professional practice or service;"	A student borrower required to serve an internship before beginning the professional practice or service for which he has prepared himself, and in conjunction with which he has incurred a debt, is not presently provided for in authorized deferment conditions. To achieve a reasonable degree of equity in treating the repayment of a guaranteed student loan, the intern should be allowed a deferment from repayment during the initial period of internship.
(c)(1)(A) The Commissioner may enter into a guaranty agreement with any State or any nonprofit private institution or organization with which he has an agreement pursuant to subsection (b), whereby the Commissioner shall undertake to reimburse it, under such terms and conditions as he may establish, with respect to losses (resulting from the default of the student borrower) on the unpaid balance of the principal and accrued interest of any insured loan with respect to which a portion of the interest is payable by the Commissioner under subsection (a), or would be payable under such subsection but for the borrower's lack of need. Except as provided in subparagraph (B) of this paragraph and in paragraph (7), the amount to be paid a State or nonprofit private institution or organization.	Section 428 (c)(1)(A) of the Higher Education Act is amended by striking references to subsidized and non-subsidized loans as indicated.	Self-explanatory.

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(f)(1)(A) The Commissioner is authorized to make payments in accordance with the provisions of this paragraph to any State or any nonprofit private institution or organization with which he has an agreement under subsection (b) of this section, for the purpose of—

(i) the administrative costs of promotion of commercial lender participation;

(ii) the administrative costs of collection of loans;

(iii) the administrative costs of preclaims assistance for default prevention; or

(iv) other such costs related to the student loan insurance program subject to such agreement.

The total amount of payments for any fiscal year made under this paragraph shall not exceed one-half of 1 per centum of the total principal amount of the loans upon which insurance was issued under this part during such fiscal year by such State, or institution or organization. If the sums appropriated for any fiscal year for making payments under this paragraph are not sufficient to pay in full the amounts provided for which such States, institutions, and organizations are eligible, then such amount will be ratably reduced. In case additional funds become available for making payments for any fiscal year during which the preceding sentence has been applied, such reduced amounts shall be increased on the same basis as they were reduced.

(B) Except as provided in subparagraph (C), each State or nonprofit private institution or organization to which subparagraph (A) of this paragraph applies shall spend not less than ¼ of the payments received pursuant to this paragraph on the purposes described in clause (i) or subparagraph (A), not less than ½ of such payments on the purposes described in clauses (ii) and (iii) of subparagraph (A), and the remaining amount of such payments on the purpose described in clause (iv) of such subparagraph.

(C) For any State which is eligible to receive a reserve fund advance under section 422(c)(5)(B), the spending minimum required by subparagraph (B with respect to purposes described in clauses (ii) and (iii) of subparagraph (A) shall, for the first year of such eligibility, not be applicable and shall, for the second and third years of such eligibility, be an amount equal to 20 per centum of the payments received under this paragraph.

(2) The Commissioner is authorized to make payments in accordance with the provisions of this paragraph to any State or any nonprofit private institution or organization with which he has a supplemental guaranty agreement under section 428A(a)(2) of this Act

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SUGGESTED AMENDMENT OR SUBSTITUTE

Section 428 (f)(1) of the Higher Education Act is amended by striking sections (B) and (C) as indicated.

RATIONALE/EXPLANATION

TITLE IV—LOANS NCHELP

The experience of state and private nonprofit guaranty agencies holding agreements with the Commissioner of Education has not justified the continuance of the requirement that funds received under the administrative cost allowance be sequentially and proportionately expended as provided in law.

Actual practice has shown that an agency receiving administrative cost allowance payments under the law might be "forced" to make expenditures beyond logical and needed levels in one category, when funds needed in another area are more logically justified. In this respect, the simple statement of purposes for which the administrative cost allowance may be used is a sufficient statement of intent.

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(2)(A) Subject to subparagraphs (B) and (C) and paragraph (4), the special allowance paid pursuant to this subsection shall be computed (i) by determining the average of the bond equivalent rates of the ninety-one-day Treasury bills auctioned for such three-month period, (ii) by subtracting 3.5 per centum from such average, (iii) by rounding the resultant per centum upward to the nearest one-eighth of 1 per centum, and (iv) by dividing the resultant per centum by four.

(B) Except as provided in paragraph (4), if the special allowance computed according to subparagraph (A) would (i) cause the special allowance for any twelve-month period during the period ending September 30, 1977, to exceed 3 per centum, the special allowance rate to be paid for such period shall be reduced to the highest one-eighth of 1 per centum rate interval which would not cause such excess.

(C) Except as provided in paragraph (4), if the special allowance computed according to subparagraph (A) would (i) cause the special allowance for any twelve-month period after October 1, 1977, to exceed 5 per centum, the special allowance rate to be paid for such period shall be reduced to the highest one-eight of 1 per centum rate which would not cause such excess.

(3) Subject to paragraph (4) the special allowance determined for any such three-month period shall be payable at such time, after the close of such period, as may be specified by or pursuant to regulations promulgated under this section. The holder of a loan with respect to which any such allowance is to be paid shall be deemed to have a contractual right, as against the United States, to receive such allowance from the Commissioner.

(4)(A) If payment of the special allowance payable under this section or of interest payments under section 428(a) with respect to a loan have not been made within thirty days after the Commissioner has received an accurate, timely, and complete request for payment thereof, the special allowance payable to such holder shall be increased by an amount equal to the daily interest accruing on the special allowance and interest benefits payments due the holder.

(B) Such daily interest shall be computed at the daily equivalent rate of the special allowance rate computed pursuant to paragraph (2) plus 7 per centum and shall be paid for the later of (i) the thirty-first day after the receipt of such request for payment from the holder,

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SUGGESTED AMENDMENT OR SUBSTITUTE

Section 438(2)(A) of the Higher Education Act is amended to provide for a one per centum floor to the calculation of the Special Allowance by adding new language to the last line of subsection (2)(A) as follows:

"* * * by dividing the resultant per centum by four [.] ; *provided however, that for no period would the special allowance be less than 1 per centum.*"

Section 438(2)(A) of the Higher Education Act is further amended to provide a new subsection to existing language as follows:

"* * * the special allowance paid pursuant to this subsection shall consider the outstanding principal balance of loans in repayment, and shall provide an additional one-half of 1 per centum, in addition to amounts determined under (i), (ii), (iii), and (iv) of this subsection."

RATIONALE/EXPLANATION

TITLE IV—LOANS NCHELP

The provision of a Special Allowance formula which insures that the gross rate of return on a student loan portfolio will be no less than 8 per centum during the life of an outstanding debt will enhance the attractiveness of the loans to lenders. In the recent years, and in the present, Special Allowance payments have been at a rate far above the amount such a "floor" would generate.

This recommendation is in keeping with the findings and recommendations of the Special Congressional Special Allowance Study Committee.

An additional one-half per centum Special Allowance is suggested to recognize the relatively higher expense to be borne by a lender in properly handling the repayment/amortization of a guaranteed student loan.

STATEMENTS OF CAROL WENNERDAHL, CHAIRMAN, LEGISLTAIVE COMMITTEE, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS, ACCOMPANIED BY HELGE HOLST OF MASSACHUSETTS; JAY EVANS OF PENNSYLVANIA; DAVID LAIRD, DEPUTY EXECUTIVE DIRECTOR, MINNESOTA COMMISSION ON HIGHER EDUCTAION, STATE HIGHER EDUCTAION EXECUTIVE OFFICES; EILEEN DICKINSON, PRESIDENT, NEW YORK STATE HIGHER EDUCATION SERVICES CORP.

Mr. FORD. We will start with Ms. Wennerdahl.

STATEMENT OF CAROL WENNERDAHL, CHAIRMAN, LEGISLTAIVE COMMITTEE, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS

Ms. WENNERDAHL. Thank you, Mr. Chairman. The council is very pleased to have this opportunity to appear before you and present our views.

I would like the record to show that I am also accompanied by our president and the president-elect, Helge Holst of Massachusetts, Doug Seipelt of Ohio, and by Jay Evans of Pennsylvania, a fellow member of our legislative committee, who does a considerable amount of work in Washington is also present.

You do have my written statement which I ask be placed in the record. When I attended the hearing yesterday my plan for my presentation this morning was to provide a summary of how well the State guarantee agencies have been doing in the last couple of years under the Education amendments of 1976 and I also wanted to make some general comments on Secretary Califano's testimony of March 20 before this subcommittee.

However, after listening to the testimonies given yesterday, I thought it might be more profitable for us to spend a few minutes talking about a national student loan bank in general, in light of the comments of the first witness yesterday from the Congressional Budget Office.

Secretary Califano commented a few weeks ago that there was approximately a $600 subsidy cost per $1,000 dollar loan. That statement seems to have become folklore already in this program. It is a number that not all of my colleagues and I endorse by any means, and I would like to address some of the numbers and concepts that were bandied around yesterday before they become folklore and accepted facts in this program, also.

I spent some time last night making some charts for the committee members to study so they can judge for themselves whether or not they think a national student loan bank would be less expensive to the taxpayer than is the current program.

As I review the comments of yesterday, there was a considerable discussion about the difference between the Government's cost for lending funds in the case of commercial lenders and in the case of Sallie Mae or a National Student Loan Bank successor. Actually, the figures come out like this.

As you know, the law right now specifies that the commercial lenders are to be paid a yield within certain statutory limits, which is equal to the rate of 91-day Treasury bills plus 3½ percent. Sallie Mae right now is able to borrow from the Federal financing bank, and I presume any successor would be able to also, at a rate which has varied from 91-day Treasury bills plus one-eighth, three-eighth of 1 percent. For purposes of illustration, in table 1, I have used 91-day Treasury bills plus one-fourth of 1 percent, since it is an average although it would not offend me at all to use the higher or lower amount if it suited the subcommittee.

Table 1 shows that we are dealing with a difference of 3¼ percent to begin with as we compare the costs of guaranteed lending and direct lending. I would like to talk about that 3¼ percent for a minute.

You must first understand that in the commercial lenders must cover their costs of funds with the Treasury bills plus 3½-percent yield they receive. However, they also have to cover their servicing costs.

In the direct lending example where Sallie Mae is borrowing funds at Treasury bills plus one-quarter percent, you have to add some charges for servicing and other things on top of that.

Let's talk some incremental costs of the National Student Loan Bank. Yesterday you heard that Mr. Fitt believed that he could get some external servicing of these loans for approximately 1 percent. I don't agree. However, I believe I know where the gentleman got his information.

His testimony speaks of Sallie Mae's current cost of servicing and, indeed, Sallie Mae's cost of servicing is now about 1 percent.

What is necessary for the subcommittee to understand is the condition of Sallie Mae's portfolio, and when I use the word "condition" I mean the relative percentages of loans that are still in school or which are in repayment and at what status during repayment period.

Servicing costs, as a percentage of the loan, are relative to the balance. Therefore, the monthly servicing costs of a loan go up in proportion to the balance as the loan matures. The costs of a loan of a borrower still in school are very low.

[Tables I and II referred to above follow:]

Table I

Government Cost for Lending Funds

Commercial Lenders (guaranteed lending)	91 Day T-Bills + 3 1/2%
Sallie Mae or successor (direct lending)	91 Day T-Bills + 1/4%
DIFFERENCE	3 1/4%

I have prepared Table II to show you how quickly that 3 1/4% can disappear when other costs of a National Student Loan Bank are assessed.

Table II

Incremental Costs of a National Student Loan Bank

Loan Servicing Costs	2%	to	3%
National Student Loan Bank Overhead	1/2%	to	1%
Costs of Loan Origination	?		?
Amortized Costs of Program Start-Up	?		?
Incremental Default Costs	?		?
Total Subtractions from 3 1/4%	2 1/2%	to	4%+

All the Sallie Mae computer has to do for loans whose borrowers are still in school is determine the aggregate amount outstanding and bill the Federal Government for interest and special allowance four times a year. It gets more expensive when the loans enter the repayment period. Sallie Mae is paying for the costs of servicing the borrower's monthly check and whatever other billing and receipting and delinquency collection activities are necessary.

These costs, as you might guess, are the same during the first month of a repayment period as they are during the last month. However, the first month Sally Mae is getting the monthly equivalent of interest on the full amount. During the last month Sally Mae is getting the monthly equivalent of interest on maybe less than a $100 balance. Therefore, as a percentage of the outstanding balance, the costs go up considerably as the loan is retired.

Sallie Mae, by no stretch of the imagination, has a mature, well balanced portfolio. Frankly, the agency is too new. Many of the loans that they have purchased in great volume in the last couple of years have barely gone into repayment, if at all.

The lender sitting behind me might choke at my conservatism in saying that the minimum servicing perceptage on a balanced portfolio is 2 percent. I will have my lenders in Chicago declaring that it is closer to 3 to 4.

However, I want to be conservative with the subcommittee on these numbers. I want to give you the lowest figures possible.

Next you must consider the NSLB overhead. For a long time there are not going to be any administrative savings from the current program which can be diverted to any new entity that you create. We have got $7, or $8 billion in loans outstanding that we have to collect. Even if we liquidate a large percentage of our lenders portfolio in the next 5 to 6 years, we still have millions of defaulted loans that current staff will be collecting for many years to come.

So assuming no overhead savings are possible in the current program for some time to come, you have to take a look at what this new NSLB is going to cost as a percentage of its outstandings. Again, I am going to estimate on the low side.

Sallie Mae's current overhead costs are still about one-half percent. I have a feelilng that, depending on what this new structure would do, their costs are going to be closer to 1 percent. Even if you take the low estimate of servicing costs and the low estimate of overhead costs, you are left now with the 3¼-percent difference being reduced to less than 1 percent. More moderate estimates would already have exceeded the 3¼-percent differential.

Now I would like to talk about some of the other costs, upon some of which I can't measure. Certainly you are going to have to take into account a loan origination fee for the schools who would perform this service. If I know my good friend Dallas Martin, he is not going to let anybody get by with requiring the schools to take over the job that the banks are doing right now without getting reimbused for it. Interviewing students and the processing of paper cost money.

Furthermore, the National Student Loan Bank would have huge startup costs. Even if you amortize those costs over 10 years, it is going to add up to a fraction of the percentage.

But even adding those two costs together, I still don't think they are going to come up to a quarter of a percent. What really bothers me is the last cost, and that cost is the incremental defaults in the National Student Loan Bank concept.

I think there are several problems with the concept as laid forth by HEW, although it is their position and not the administration's, and with some of the comments made by Mr. Fitt yesterday, that need to be addressed. The committee must know what really happens out there in the real world in the making and the granting of student credit.

First of all, the Secretary was making a lot of comments about potential savings because of deletion of middlemen in the current program. Yet if you take a look at the opportunity HEW had in the District of Columbia program that they set up when they acquired some capital to lend to the students of the District, there was no way that the HEW program people who were setting up that program were going to let the schools alone determine the students eligibility.

They required, and I think rightfully so, every single one of those students, with a rare exception of some who substituted their parents, to go over to HEW for a personal interview. Why? Because HEW realized the value—the cost savings—of having that middleman present when their own program was at stake. I understand from some of the people that have been performing those interviews, that such a practice resulted in a considerable number of applicants being sent back to the schools. Policies and procedures of the schools were questioned to protect the program from potential loss.

I believe that our program lenders perform this very valuable function, without which losses would be significantly greater.

Another problem comes from school origination of loans, and I don't mean to condemn all schools' administration of the NDSL program. However, you have to understand that right now this program has a considerably higher default rate.

HEW would have you believe that this is because schools don't have adequate servicing of those loans. HEW would have it turned over to Sallie Mae and a third party servicer to handle the collections.

The fact of the matter is a great proportion of the schools under the NDSL program have used third party servicers for years, and if you can get HEW to show their data comparing the loss experience of those schools that have, and those schools that have not used third party servicers, I think that you will find they are not appreciably different. Why is that?

The reasons are known to those of us who went through the 1975-76 experience as the vacuum cleaner theory and the toaster theory.

To make that illustration very short, the vacuum cleaner theory concerns an analogy of the Electrolux salesman who, when he is ready to close his sale, is not expected to make an issue of the nature and binding terms of the installment contract which the housewife must strictly adhere to in order to emphasize the product.

There is an inherent conflict of interest between the provider of services and the provider of credit, and we cannot expect schools that are hungry for students to do precisely the same job of giving the students a no nonsense credit interview if they are trying as their first job to recruit the students.

The toaster theory pertains to an analogy of a gentleman who borrowed $20 from his neighbor until payday to purchase a toaster from XYZ Department Store to give to his wife for an anniversary gift. When he took the toaster home, it didn't work. What happens then? Most often, he would pay his neighbor the $20, and would negotiate the issue with XYZ Department Store separately.

However, if he had put that toaster on XYZ's revolving charge account plan chances are he isn't going to pay XYZ until he gets his problem resolved concerning the toaster.

We find the same problem in the student loan business when students charge their tuition on the schools deferred tuition plan if when they get their education home, it doesn't work, then they are less likely to pay the source that they feel guilty of their dissatisfaction then they are a third party whom they think is innocent of their dissatisfaction.

Lastly, I think the empirical data will show what happened in the early seventies when various schools in the program obtained access to large amounts of credit under the guaranteed loan program. The default rate was close to 20 percent.

The first thing that HEW did when they attempted to clean up the FISL program was to revoke the status of those schools who had become lenders. For some reason now HEW seems to be suggesting that those schools should once again become lenders.

If you accept that the default rate is going to be affected even by only a couple of percentage points, and I assure you that based upon past NDSL and FISL experience, any National Student Loan Bank Model is going to be considerably more expensive than the current student loan program, the most difficult decision which must be made if you want to cut costs in this program is that you must do one of two things. You either have got to shift a portion of the interest burden off onto the consumer or you must reduce the number of loans.

If you shift the interest burden to the consumer, you have to address three separate problems. The first problem is the political problem of dismantling the Middle Income Assistance Act of last year. Specifically I am speaking about the expectations that you have raised in your constituencies and whatever understandings you reached with your colleagues here on Capitol Hill. The students spoke eloquently about the second problem which is the human factor or what these increased costs would do to borrowers' repayment burdens.

Lastly, you would have to address operational problems, such as who is going to make the loans. If you want to keep the commercial lenders in this program, I think the 1972 experience, which decided then to make the interest subsidy available on the basis of financial need, is worth recalling. This decision subsequently required several emergency changes which were made three times in the next 18 months after that, would tell you that this will not work.

If you increase the cost to lenders, as would any change in the interest subsidy regulations, you are going to have to also increase the yield to the lenders, or you are going to affect participation.

To conclude, I think the students and the other groups yesterday spoke about the risks of entitlement programs. For the first time at a Federal level, if we go into a national student loan bank, that you will be dealing with 100 percent eligibility for a minimum of $2,500 of student aid generated at the Federal level.

Nobody really knows what that is going to mean. I remember this committee getting embroiled in discussions last year in an argument that a campuswide entitlement for a combination of $250 in tax credit or a basic grant was going to be wildly inflationary.

I am not terribly certain that the argument is different concerning a campuswide entitlement for a minimum of $2,500 worth of aid. Certainly the students are worried, the schools are worried, just about every witness that you have before you is very concerned about what is going to happen in the educational environment of the eighties. How are the schools and States, leaving the comfortable environment of the sixties and the changeable environment of the seventies, going to react to the influx of this Federal capital into their system?

Mr. Chairman, that concludes my unprepared remarks for this session. I would be happy to answer any questions now or turn the microphone over to my colleagues.

Mr. Ford. Thank you. Ms. Dickinson.

STATEMENT OF EILEEN DICKINSON, PRESIDENT, NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

Ms. Dickinson. I wanted to be sure you had the statistical breakdown of loans guaranteed by sector and by school. Did all of you get them?

I am Eileen Dickinson, president of the Higher Education Services Corporation of the State of New York. I am going to skip through my testimony and would be pleased to answer any questions, Mr. Chairman.

I come before you today representing the largest student loan guarantee program and the largest State grant program in the Nation.

For Federal fiscal year 1978 we guaranteed over $408 million in guaranteed student loans, 27 percent of the total guaranteed by State agencies that year.

My testimony will be entirely about the student-loan program, but I must mention that the State of New York has the largest grant program in the country. We will this year give out $250 million in State dollars on a totally need basis. The Federal SSIG contribution to our grant program will be somewhere around $7 million.

Many people refer to loans as the last resort in student aid. I think grant aid should be fully utilized before a student turns to a loan, particularly students beginning their undergraduate programs. But I think it is essential to understand the importance of loans as a source of student aid. They provide a key element in New York State's financial aid structure.

The statistics that you have before you I think are worth looking at just for a moment because you can see how the program works in New York. Loans are provided to students in the public sector and in the independent sector on an equal basis. In 1978-79 we provided $97 million in loans to New York students who attend school out of State and $11 million to New York State students studying overseas.

The success of the New York program, gentlemen, rests entirely on the 1976 amendments to the Education Act.

In 1976, you gave us payment of 100-percent reinsurance on defaulted loans, payment of the administrative cost allowance, the ability to retain a portion of collections to cover collection expenses.

You strengthened enormously the guaranteed agencies and provided very strong incentives for the establishment of new agencies. Yesterday, Joel Packer described the 13 new agencies established since 1976. The change that was made increasing the subsidized income limit has been extremely important to the growth of the program in New York.

Perhaps the most important change embodied in the amendments was tying the special allowance rate to current money market conditions and raising the maximum rate from 3 to 5 percent.

For the first time a lender knew how the rate was set and they could predict their returns on investments in the student loan program. The importance of this change on lender planning and their participation in the program cannot be overstated.

We are enormously grateful that Congressman Biaggi has introduced a bill to remove that cap in response to current drastic market conditions. I will go into that in a little more detail in a few moments.

MISA, the Middle Income Student Assistance Act, provides further significant gains to students from middle income families by extending the eligibility for interest subsidies. Simplification of the application process has also been made possible by MISA. Attached to my testimony are the old pre-MISA loan application and our new loan application in New York.

When I came to the corporation in the summer of 1975, we were very close to a crisis. We have long allowed—in the interest of simplification—a student to borrow from only one lender in the State of New York. As lenders began to contract their loan programs in response to an unsatisfactory return, students looking for an alternate lender had to find one which would buy his portfolio of prior loans. This was a very severe problem in 1975, 1976, until the 1976 amendments. With the amendments, and the development of a predictable and rational special allowance, student loans are now readily salable from one bank to another.

The psychological impact on bankers of the prospect of a return on their money that is below an appropriate market rate at this point is chilling in the State.

Carol mentioned myths about the program. Almost all of the myths about the program relate to access. They include: Reluctance of private lenders to commit capital to the program; difficulties for students in obtaining loans, causing them to seek loans from half a dozen lenders arbitrary loan limits set by lenders to discriminate against students who appear to be bad risks, and forms and procedures that are too complex. These people are not talking about the guaranteed student loan program as it exists in New York State.

Problems of access are not present in New York State or in many other States with established guarantee agencies. The danger in perpetuating the myth of unavailable loan money is that it may be accepted as a factual description of a problem that is inherent in the structure of the guaranteed student loan program.

Obviously, problems exist in some parts of the country. They exist mostly in States that have relied on the federally insured student loan—FISL—program. The most startling example of this is the comparison between New York and California. Despite the fact that California has more students than New York, in Federal fiscal 1978, California lenders committed only 18 percent of the funds committed by New York State lenders to the program.

Pennsylvania, New Jersey, and Connecticut have student populations that are far smaller than California, but lenders in each of these States, under active, energetic State-guaranteed agency programs, commit far more funds to the program than did lenders in California.

I am delighted that you will hear today from a California lender.

New York's history in student aid is an honorable one. I am proud to wear my "I Love New York" button today. Our scholarship program goes back to 1913. Our loan program goes back to 1958. The Federal program was in many respects modeled after the New York program.

We have had a long history of success that can and should be replicated elsewhere.

The key to a successful guaranteed student-loan program is, obviously, a high degree of commercial lender participation. This can be achieved by treating the lending institution as a full partner in the program taking steps to provide it with a reasonable return on its investment in the program and minimizing the administrative burden of the program.

Now, in New York, we offer several services to the lender. They were financed originally by the State of New York, and are now financed within the administrative cost allowance. I will list a few. We bill the Office of Education for interest subsidies and special allowances due to lenders. We pay the lenders and bill the students for interest due on nonsubsidized loans. We verify student status on all inschool loans, and provide extensive contact with delinquent student borrowers prior to the purchase of default claims.

Nearly 60 percent of the claims that come to the corporation are returned to paying status by traditionally active aversion effort.

These functions which make a difference in the profitability of the program for the lenders are not expensive for us.

The detractors of the guaranteed student loan program have looked at its failures, not its successes. If the degree of capital availability expected in New York State this year were extended nationally, it would result in a $6 billion program. That is access. That is access at a level beyond anything foreseen by all but a few people desiring greater access under GSLP. But that is access at the level that we now have in New York.

I must repeat what many other States would say to you—including those as remote from the New York picture as North Dakota—broad access can be achieved under the guaranteed student loan program. But the newly established guarantee agencies must be given the opportunity to expand access to student loans through the mechanisms established by the 1976 amendments.

Commercial lenders must not be condemned on the basis of their FISL experience. Again, the California banker will have far more to say about that than I.

I would like to pick up with a few proposals at this point that are in my testimony. Obviously, we believe that the reauthorization should be reaffirmation, really, of what has happened in 1976 and in the Middle Income Student Assistance Act.

We do believe that any changes in the program should be aimed at achieving the following goals: (1) Expanding availability of loans under the guaranteed student loan program, (2) simplifying the student loan programs by consolidating the various loan programs under the GSL umbrella, (3) reducing program abuse by greater cooperation between HEW and the agencies, (4) reducing costs, and (5) maintaining access to loans by assuring the providers of loan capital with a reasonable return on their investment.

The special allowance was a device established in the guaranteed student loan program to assure a reasonable return. The formula accepted in 1976 has demonstrated a flaw that we had not foreseen when in 1976 we looked for a reasonable, predictable, and just measure of the cost of money.

The law provides a 5-percent annual ceiling on the special allowance and fixes the quarterly payment at 3½ percent below the average rate for 91-day Treasury bills. The formula would have taken the program through the crisis of 1974 but it is not adequate for the money market of 1979. In 1976, our hindsight was perfect.

The 5 percent annual ceiling on the special allowance will result in payments of 4 percent for the summer and 4¼ percent for the fall quarter.

Without the 5-percent annual ceiling the rate would probably be about 6-plus for these quarters.

When I wrote this testimony on May 29, the prime rate for money was 11¾ percent. Banks receiving a return on student loans lower than the prime rate may look for other investments and may prefer them to student loans. This could precipitate a student-loan crisis this summer.

I ask you again to consider the impact on students in New York institutions and on the institutional fabric of higher education in New York, bearing in mind those figures that you have before you.

When we attended the national council of higher education loan programs—NCHELP—in convention in Fort Lauderdale about 10 days ago, the Florida senate had passed a bill that alarmed me, but it is enormously descriptive of how tight money is in different parts of the country.

The new bill provided that installment purchases or installment loans under $800 could carry an interest rate of 21 percent. It is a horrifying figure, but as the sponsor of the bill—which was successful in the Senate said: "We are now driving people into the hands of the finance companies because there is not money around at 18 percent."

We ask, obviously, that the 5-percent ceiling on the special allowance should be removed: Mr. Biaggi's H.R. 3554 should be acted upon. It must be reported out of committee, as I understand the procedure, by June 15.

We have great need to make this known to bankers who will be motivated by favorable action of the committee to keep their level of participation where it is and growing. You made a commitment as the Congress, a firm commitment to meet a reasonable price of money in 1976. A whole program of student aid has been built on that. Momentarily, we hope, the money market is now out of sync, badly out of sync. We hope this is a shortlived problem. But you must react to this situation if we are to keep lenders in the program. Or you can kill the guaranteed loan program by attrition.

We support the recommendations made by the commmittee to study the special allowance that was established by the 1976 amendments, including a 1-percent floor—which seems irrelevant right now—and an additional one-half of 1 percent to be paid on loans in repayment to the lenders.

We offer one bold step toward increasing access and providing incentives for the establishment of national lenders of last resort. Loans would be available to students with unproven credit who are unable to get loans under the existing programs or to students from States that do not have guaranteed agency programs. The loans would be guaranteed under selected and approved guarantee agency or nonprofit agency programs.

The concept of national lenders was established under the health education assistance loan program. Most HEAL loans, incidentally, are being made by a New York State bank to students who are residents of other States and who attend schools in other States. We have several lenders that would be interested in making loans to students in other States. The programs of last resort are described on page 12 of the testimony.

PROBLEM SIMPLIFICATION

We have a proposal for you on page 13 of the testimony, recommending that schools be permitted to make national direct student loans under the guaranteed student loan program. This proposal has been developed by the New York State Board of Regents and has the support of the Commission on Independent Colleges and Universities in New York.

The program would have the following features. Schools would be permitted to sell their NDSL notes to an agency such as Sallie Mae or other eligible holders of guaranteed loans. Using the proceeds of such sales, as well as moneys available in their NDSL funds, schools would make new loans under the rubric of the GSL program. Federal capital contributions would be made only to those schools that are unable to receive such capital through the sale of loan notes, and the terms of new NDSL loans would be the same as for guaranteed student loans.

An education should be worth the same thing to the law school graduate, or the baccalaureate holder from Columbia, whether she came from a wealthy family or a less wealthy family. We are buying education on the installment plan, really, through the loan program.

Borrowers would be permitted to consolidate currently outstanding NDSL notes and GSL notes despite different rates. This could be accomplished by replacing NDSL notes with guaranteed student loan notes. To equalize interest rates, the U.S. Commissioner of Education would require that a borrower pay only a portion of an NDSL in converting it to a GSL. The balance would be canceled. This would actually encourage accelerated repayment of the new note and the NDSL default problem would be vastly reduced.

I recognize that the accomplishment of my next recommendation would require the cooperation of other committees, but I cannot resist mentioning the HEAL program which I believe should be consolidated into the guaranteed student loan program. This could be accomplished by law, by establishing higher annual and aggregate loan limits and a longer grace period.

Last summer, New York's Governor Carey, concerned with the inadequacy of funds that appeared to be available through the HEAL program, encouraged and signed a medical-dental-veterinary loan program in the State.

It is extremely interesting to note that under the rubric of New York's guaranteed student loan program we have made 5½ times as many med-den-vet loans as HEAL has made because the program works.

The GSL is a simple program, gentlemen. In the 1976 amendments you created a winner, and it is adaptable to other situations. In the New York amendments program the student is paying the interest, the State is paying the special allowance, and the students are using the program because it is a better buy.

Back to recommendations. We believe that interest payments should be paid on all inschool loans and deferred loans that were disbursed prior to November 1, 1978, the effective date of MISA.

We recommend that the distribution requirements set in law on the primary administrative cost allowance should be removed. Current law requires that one-half the allowance be spent on collections and preclaims, one-quarter on promotion of commercial lender participation and one-quarter on other expenses.

This requirement might in time lead even the most honorable to be tempted to juggle expenditures in order to maximize the amounts of administrative cost allowance payments, which may not be in the interest of the program.

We would do very much better to be working on program control at the schools in New York rather than working on commercial lender relations.

PROGRAM ABUSE

A good deal has been done nationally, and at HEW, and in the State to collect on defaulted loans. We are very proud of the work we have done in the State of New York under the bankruptcy restrictions that were put through in 1976. We have appeared in some 300 cases. We have had a reaffirmation of some $800,000. That is important legislation.

We have also been able to work out, under that legislation, reasonable hardship criteria that are acceptable to you and to the bankruptcy judges.

We propose another idea for cutting the cost of the program. This can be done by making advances to lenders for amounts due on delinquent loans instead of purchasing the default outright.

This recommendation is located at the bottom of page 19 and the top of page 20 of my testimony.

It is an arrangement very similar to Ginny Mae, the Government National Mortgage Association. Currently when a loan becomes delinquent and enters default status the entire loan is purchased from the lender and the Government makes the full outlay.

The guarantee agency should be authorized to use Federal advance funds to make the monthly payments that are not being made by borrowers for a period of up to 18 months. This period could be used to apply intense effort to get the borrower into repayment status.

Experience has shown that many borrowers begin repayment after their student loans have been purchased as defaults. The Federal Government will have saved the full capital cost of purchasing the loans on accounts that are returned to repayment status. On accounts that do not resume payment, the Federal Government will have deferred payment of default purchases.

Obviously, on accounts that return to repayment, terms would include repayment of the advances made to the lenders. Participation in such a program would be at the lender's options.

I will answer any questions. Thank you very much for the opportunity to testify. I plead again for the reaffirmation of what we have in the GSLP. It is an extremely successful program. It has been hampered by a failure in the Office of Education to get out the regulations. The 1976 regulations aren't out; the 1972 regulations are now being combined with the 1976 regulations, so they aren't out either; and the interest payments have been slow. We would have been busted in November 1977 if we had not had the administrative cost advance. These are nudges that have to be continued but at the same time the talk at high levels of a student loan bank chills commercial lender participation and the plans for its continuance.

It is frightening to contemplate the prospect of the Congress walking away from a serious commitment on which major investments in student loans have been made by the banking business in New York. That commitment must be kept through an adequate and continuing relationship of the law to the return of the lender. If it is not, the cost will be apparent in terms of student disappointment. And I know that in the fall you will witness the results—financial hardship for freshmen, vocational students, and community college students.

Thank you very much.

[Prepared testimony of Eileen Dickinson follows:]

5/30/79

NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

TESTIMONY ON REAUTHORIZATION OF GUARANTEED STUDENT LOAN PROGRAM

Congressman Ford, Members of the Subcommittee, I thank you for the opportunity to testify today.

I am Eileen D. Dickinson, President of the New York State Higher Education Services Corporation. NYSHESC administers the Federal Guaranteed Student Loan Program in New York and New York's state grant and scholarship programs. I come before you today representing the largest state student loan guarantee program and the largest state grant program in the nation. For Federal fiscal year 1978, NYSHESC guaranteed over $408 million in guaranteed student loans, over 27 percent of the total guaranteed by state agencies that year. In addition, we provided students over $260 million in grants and scholarships for the 1978-79 academic year, representing over 30 percent of all state grant and scholarship dollars awarded that year. My remarks today will be limited to the reauthorization of the Guaranteed Loan Program.

Many people refer to loans as the last resort in student aid. While I believe that grant aid is generally preferable, particular for low income students, it is important to appreciate the importance of loans as a source of student aid. In New York, guaranteed student loans are the single largest source of aid to students. For the 1977-78 academic year, New York State residents received nearly $194 million in BEOG grants and some $240 million in State grants and scholarships. By contrast, over $361 million in loans were made to State residents between April 1977 and March 1978.

Loans provide a key element in New York's financial aid structure. In some cases they allow students to choose higher cost institutions that better meet the student's education needs. In other cases, they provide the final dose of resources required to enable a student to attend postsecondary education at all. Loans annually provide a large source of funds without corresponding outlays of public funds by attracting private capital.

The importance of guaranteed loans in the student financing of postsecondary education has been clearly recognized by Congress in the past three years. The Education Amendments of 1976 and the Middle Income Student Assistance Act provided for the strengthening and expansion of the Guaranteed Student Loan Program.

Payment of up to 100 percent reinsurance on defaulted loans, payment of administrative cost allowances, the ability to retain a portion of collections to cover collections expenses, and new advance fund provisions all served to strengthen existing guarantee agencies and to provide incentives for the establishment of new agencies. Thirteen new agencies have been established since 1976. Without the 1976 Amendments there would perhaps be fewer agencies than there were in 1976. Even in New York State, with its strong commitment to the loan program, there were recommendations that we cease guaranteeing new loans and rely on the Federally Insured Student Loan Program. The changes made by Congress reflected the strong performance of guarantee agencies when compared to direct Federal operations under FISL and have yet to reach their full potential.

Another extremely important change embodied in the 1976 Amendments was tying the special allowance rate to current money market conditions and raising the maximum rate from three percent to five percent. For the first time, lenders know how the rate is set and can predict their return on investments in the student loan program. The importance of this change on lender planning and participation in the program simply cannot be overstated.

The Middle Income Student Assistance Act provides significant aid to students from middle income families for the first time by expanding student eligibility for interest subsidies under the Guaranteed Student Loan Program. Simplification of the application process has also been made possible by the Middle Income Student Assistance Act. The removal of all income requirements for Guaranteed Student Loan subsidies has resulted in a student loan application that is much easier for students, schools, lenders, and agencies to handle. I have enclosed copies of the Corporation's new and old applications.

In New York, these Congressional initiatives are accomplishing their purposes. Access to student loans has grown tremendously, more than doubling from 1976-77 ($207.6 million) to 1978-79 ($446 million). During the early months of this year, loan application volume under our program increased by close to 40 percent over the same period last year. This has been the largest jump in loan activity under the Corporation's program in several years and while some can be attributed to inflationary increases in college costs, the majority can only be attributed to the Middle Income Student Assistance Act.

While the amount of defaults purchased has increased ($30 million in 1976-77 to $43 million in 1978-79), collections from students who have defaulted have grown at a greater rate. In 1976-77, we received approximately $5.8 million in collections on defaulted loans. In 1978-79, with expanded efforts subsidized by the provisions of the Education Amendments of 1976, we received over $9.3 million in collections on defaulted loans, an increase of 60 percent over the 1976-77 figure.

The public policies of the Congress have been clear and have been aimed at improving the program.

Before I speak about proposals for change, I would like to talk about several myths that have been circulating about the Guaranteed Student Loan Program as it is currently structured. They all relate to access. They include: a reluctance of private lenders to commit capital to the program; difficulties for students in obtaining loans despite applications to as many as a half-dozen lenders; arbitrary loan limits set by lenders sometimes to discriminate against students who are seen as poor risks; and forms and procedures to obtain loans that are too complex.

The people who are raising these issues are not talking about the Federal Guaranteed Student Loan Program as it exists in New York State. The following table shows that loans are broadly available to study at universities or vocational schools, at schools that are in state, out-of-state, or out of the country.

New York State Higher Education Services Corporation

FISCAL YEAR 1978-79

LOANS GUARANTEED BY TYPE OF INSTITUTION

Sector	Number of Loans	Dollar Amount of Loans
CUNY 4-Year	11,837	$ 17,353,111
CUNY 2-Year	4,929	6,611,638
SUNY 4-Year	38,615	65,144,583
SUNY 2-Year	19,807	27,371,363
Independent 4-Year	83,839	177,543,783
Independent 2-Year	6,596	10,464,888
TOTAL Collegiate	165,623	$304,489,366
Beauty	4,628	$ 5,645,589
Nursing	1,888	2,899,782
Business	11,091	14,170,514
Trade	6,860	10,138,055
Out-of-Country	2,799	11,240,136
Out-of-State	42,309	97,525,536
TOTAL ALL Sectors	235,198	$446,108,978

Problems of access are not present in New York State or in many other states with established guarantee agencies. The danger in perpetuating the myths is that they may be accepted as factual descriptions of problems inherent in the Guaranteed Student Loan Program structure.

I do not deny that problems exist. They occur mostly in states that have relied on the Federally Insured Student Loan Program. The most startling example of this is the comparison between New York and California. Despite the fact that California has more students than New York, in Federal fiscal year 1978, California lenders committed only 18 percent of the funds committed by New York State lenders to the program, ($73 million compared to $408 million). Pennsylvania, New Jersey and Connecticut have student populations that are far smaller than California's, but lenders in each of those states, under state guarantee agency programs, committed far more funds to the program than did lenders in California.

Under the Federally Insured Student Loan Program in California, annual loan volume from fiscal year 1968 to fiscal year 1972 increased to over $125 million. Since then, the annual volume has declined steadily to about one-half the 1972 level. The 1979 loan volume in California is expected to be about $60 million compared to an anticipated $550 million in New York. The ineffective administration of the FISL Program has frustrated lenders, has increased the costs of participating in the program for lenders, and has increased the financial liability of lenders making FISL loans. California lenders have responded to these problems by reducing their new commitments to the program. Some lenders have completely withdrawn from the program, while others, in order to minimize their financial liability and to gain returns sufficient to cover administrative and money costs, have imposed restrictions on the types of students to whom they will lend. Freshmen, community college students and students at vocational schools are the groups normally discriminated against. In contrast, in the early years of the FISL Program, California lenders were making loans to all categories of eligible students and were increasing their annual loan volume.

In response to the 1976 Amendments, California has established a guarantee agency program. During the past 18 months, the California Student Aid Commission has spent a great deal of time and effort in overcoming the "ill feelings" created by the FISL Program among lenders. The most difficult task faced by the Commission in developing the State agency program was that of rebuilding the lenders' confidence that a guaranteed loan program could be administered effectively and efficiently. To a large extent, this confidence has been established by pointing out the success of guarantee agency programs in states such as New York. Loan volume in the first year of the California guarantee agency program is expected to exceed $100 million, thus reversing the trend under the FISL Program.

New York State has a long tradition of encouraging student loans made by private lenders. New York established a state guarantee agency in 1958. The Federal Guaranteed Student Loan Program, was, in many respects, modelled after the New York Program. It has a long history of success that can and should be replicated elsewhere.

The key to a successful guaranteed student loan program is, obviously, a high degree of commercial lender participation. This can be achieved by treating the lending institutions as full partners in the program; taking steps to provide them with a reasonable return on their investment in the program and minimizing the administrative burden of the program.

The Corporation provides a broad range of services to lenders to encourage their participation in the program. These services include: billing the U.S. Office of Education for interest subsidies and special allowances due the lenders; paying lenders and billing students for interest due on non-subsidized loans, verifying student status on all "in-school" loans; providing extensive contact with delinquent student borrowers prior to the purchase of default claims; and completing annual lender reports to the U.S. Office of Education. When conducted for a large number of lenders, these functions are not expensive for the Corporation and they make a significant difference in the attractiveness of the program to the individual lender. These services are financed within the administrative cost allowance.

Guarantee agencies also provide the type of close contact and cooperation with lenders that can only come about through decentralization. We hold seminars and visit lenders to provide constructive suggestions and recommendations on the administration of the program. We issue frequent bulletins, the purpose of many of which is to convert Federal directives into clear instructions that can be followed. We issued regulations to bring the State program into conformity with the 1976 Amendments early in 1977, but we still await the Federal regulations on the 1976 Amendments. We never received regulations on the 1972 Amendments. The timely promulgation of regulations really would be a great aid in the effective administration of the program.

The detractors of the Guaranteed Student Loan Program have looked only at its failures, not its successes. If the degree of capital availability expected in New York State this year were extended nationwide, it would result in a six billion dollar program. That is access. That is access at a level beyond anything envisioned by all but a few people desiring greater access under GSLP. That is access at the level achieved in New York State under the current Guaranteed Student Loan Program. Any notion that broad access cannot be achieved under the Guaranteed Student Loan Program is utter nonsense. Other proposals submitted to you for restructuring student loan programs in an effort to expand access to this level would require the public financing of this $6 billion fund annually. The costs of such public financing through a national student loan bank or in whatever form would clearly exceed the costs of the GSLP and would inevitably crush the program itself.

The newly established guarantee agencies must be given the opportunity to expand access to student loans through the mechanisms established by the 1976 Amendments. Commercial lenders must not be condemned on the basis of the FISL experience as not being willing to provide the necessary capital for student loans. The established guarantee agencies clearly illustrate how well the program can work.

Loan Program Proposals

The Guaranteed Student Loan Program operated by state and nonprofit private agencies has been the most successful means of providing access to needed loan capital to students. Reauthorization of the Federal loan programs should place even more emphasis on the primary program, the Guaranteed Student Loan Program. Changes in the student loan programs should be aimed at achieving the following goals:

A. To continue to expand availability under the Guaranteed Student Loan Program.

B. To simplify the existing student loan programs by consolidating the various loan programs of HEW under the GSL umbrella.

C. To reduce program abuse by greater coordination between HEW and guarantee agencies.

D. To reduce costs.

Our recommendations for change are grouped according to these four goals.

A. Access

Access to loans, as I have said before, depends primarily on assuring the providers of loan capital with a reasonable return on their investment. The special allowance is the device established in the Guaranteed Student Loan Program to assure a reasonable return. It has demonstrated a major flaw not forseen when we looked in 1976 for a reasonable and predictable measure of the cost of money. The law provides a five percent annual ceiling on the special allowance and fixed the quarterly payment paid at 3.5 percent below the average rate for 91-day Treasury Bills. The formula would have taken the program through the money crisis of 1974, but it is not adequate for the money market of 1979. As always, hindsight was perfect. The five percent annual ceiling on the special allowance will result in payments of four percent and four and one-quarter percent this summer and fall. Without the five percent annual ceiling, the rate would probably be about six percent for those quarters. On May 29, 1979, the prime rate for money is 11 3/4 percent. Banks receiving a return on student loans lower than the prime rate may well prefer other investments to student loans and may precipitate a student loan capital crisis.

1. The five percent ceiling on the special allowance should be removed. Indeed, this should be done before the reauthorization of the program is acted upon. Representative Mario Biaggi has introduced a bill (H.R. 3554) to remove the ceiling. This legislation should be passed as soon as possible to insure that students have access to loans to pay for Fall 1979 educational costs.

We also support two other recommendations made by the Committee to study the Special Allowance which was established by the 1976 Amendments.

2. A one percent floor should be established on the special allowance.

3. An additional one-half of one percent should be paid on loans in repayment.

Another bold step toward increasing access to loans that may be worth considering would be to provide incentives for the establishment of national lenders of last resort. The loans would be available to students with unproven credit who are unable to get loans under existing programs or to students from states that do not have guarantee agency programs. The loans would be guaranteed under selected and approved guarantee agency or non-profit private agency programs. The concept of national lenders was established under the Health Education Assistance Loan Program (HEAL). Most loans under the HEAL Program were made by a New York State bank to students who are residents of other states and who attend schools in other states. We have several banks that would be interested in making loans to students in other states.

The programs of last resort access to student loans would operate under state guarantee agency programs or non-profit private agencies with the cooperation of lenders within those states. The following incentives for the establishment of such programs could be enacted:

a. All loans under such programs would be fully reinsured if insurance premium funds are not sufficiently available to cover the agency's share of default purchases. Many of these loans would be made to students who are seen as poor credit risks with a higher potential for default.

b. The agencies would be permitted to remit a portion of the insurance premium charged to students to the lenders to cover the higher costs of originating and collecting student loans outside their normal trade area.

c. Remove the requirement that the agency operating within a state can only be one designated by the state.

The increased costs of such programs, if any, would be minimal. The costs would be far less than under a national student loan bank. I present this idea as a possible alternative to a national student loan bank to assure access to certain underserved "pockets". I realize that much work must go into the development of the idea. However, if you are interested, I would be happy to provide staff assistance to work on the proposal and to arrange meetings with lenders that would be interested in providing this service.

B. Simplification

Meaningful simplification of the student loan programs can only come about through the consolidation of the various programs.

1. Schools should be permitted to make National Direct Student Loans under the Guaranteed Student Loan Program.

   This proposal has been developed by the New York State Board of Regents and has the support of the Commission on Independent Colleges and Universities in New York. The proposed program would have the following features:

   a. Schools would be permitted to sell National Direct Student Loan (NDSL) notes to an agency such as the Student Loan Marketing Association or other eligible holders of Guaranteed Student Loans.

   b. New loans would be made by schools using the proceeds of such sales as well as monies available in their NDSL funds to make new loans under the Guaranteed Student Loan Program. Schools would become institutional lenders under the Guaranteed Student Loan Program.

   c. Federal capital contributions would be made only to those schools that are unable to receive sufficient capital through the sale of loan notes. This should require a greatly reduced appropriation for NDSL.

   d. The terms of new NDSL loans would be the same as Guaranteed Student Loans. Because of the overlap in the characteristics of students using the two programs, we see little justification for the different terms.

e. Borrowers would be permitted to consolidate currently outstanding NDSL notes and GSL notes despite the different interest rates. This would be accomplished by replacing NDSL notes with GSL notes. To equalize interest rates, the U.S. Commissioner of Education would require that a borrower pay only a portion of an NDSL in converting it to a GSL. The balance would be cancelled. This would actually encourage prepayment of the new note and the NDSL default problem would be vastly reduced.

Another significant step toward simplification of the programs would involve the Health Education Assistance Loan Program although I realize that the accomplishment of this recommendation would require the cooperation of other committees.

2. The Health Education Assistance Loan Program should be consolidated into the Guaranteed Student Loan Program.

   This can be accomplished by establishing the higher annual and aggregate loan limits for health professions students in the GSL Program. The longer grace period allowed to HEAL borrowers can be accommodated by establishing a new deferment for students involved in residency or internship programs.

   Even if the HEAL Program is not consolidated into the GSLP, such a deferment should be established. The only remaining problem is that of subsidies. It apparently was the intent of Congress not to pay any subsidies on loans to health professions students. I would suggest a slight change from this position. It would be possible not to pay interest subsidies on GSL's for health professions students, but to pay special allowances on such loans. Thus far it has cost the Federal government far more to administer a separate program for health professions students than it would have to have paid special allowances on HEAL loans.

Activity under the HEAL Program has been so low that it makes little sense to retain it as a separate program. In the past year more loans have been guaranteed under a New York State program for medical, dental and veterinary students than have been guaranteed under the HEAL program nationwide. The State program was approved by Governor Hugh L. Carey last August as a means of providing an alternative to New York students to the HEAL Program. 1,565 loans have been guaranteed in the past year, whereas, as of March 30, 1979, 285 HEAL loans had been guaranteed although additional loans are yet to be reported to Washington. Similar measures can be taken to consolidate other Federal loan programs.

Another step toward both simplification and greater equity in the Guaranteed Student Loan Program would be achieved by giving equal treatment of all GSL borrowers regardless of when their loans were taken out.

3. Interest benefits should be paid on all in-school loans and deferred loans that were disbursed prior to November 1, 1978. Currently, among students from families in identidal financial circumstances with incomes of $25,000 or more, those who took out loans before November 1, 1978 would be paying interest

while in school and those who have received loans since then do not pay interest. Similarly, when a borrower applies for a deferment, it is necessary to check whether or not the borrower was eligible for interest benefits at the time the loan was taken out. The financial situation of the borrower at the time of receiving the loan often has no relationship to his situation at the time of the deferral. It would be in keeping with the spirit of the Middle Income Student Assistance Act to pay interest subsidies on all loans while the students are in school or in their grace period or when they receive deferments after entering repayment.

The last recommendation in the area of simplification deals with the administrative cost allowance payments to guarantee agencies.

4. The distribution requirements on the primary administrative cost allowance should be removed.

The current law requires that one-half of the allowance be spent on collections and preclaims assistance, one-quarter on promotion of commercial lender participation and one-quarter on other expenses. This requirement could lead even the best of us to be tempted to juggle expenditures to maximize the amounts of administrative cost allowance payments which may not be in the best interests of efficiency and economy. We do not need to spend additional money on promoting commercial lender participation. We could very profitably spend money on such things as helping schools to improve their administration of the program with the objective of cutting defaults. Current law provides us with the incentive to devise unneeded actions in the area of lender promotion in order to avoid losing three times that amount in other areas.

C. Program Abuse

During the past several years, major steps have been taken to curb program abuse. We have been financially able to mount much more intensive efforts to collect funds from students who have defaulted on Guaranteed Student Loans. The U.S. Office of Education has checked its list of defaulted borrowers against lists of Federal employees. In New York, we have taken similar action using lists of State employees as well as conducting a match against the New York City payroll. These steps have been quite valuable in locating borrowers and getting them to make payments. However, additional aids are needed.

Program abuse has also been reduced through the nondischargeability of Guaranteed Student Loans in bankruptcy for five years except in cases of undue hardship, although the provision is not currently in effect. Counsel for the Corporation has appeared in approximately 300 cases contesting student bankruptcies. To date we have been successful in obtaining reaffirmations on judgments in 200 of these with 100 still pending and approximately 25 actions withdrawn or found to involve hardship. This has resulted in savings of $800,000 in the 18 months of the nondischargeable provision. A reasonable definition of undue hardship has begun to emerge in the cases that have been heard. Borrowers have not been unduly disadvantaged by the bankruptcy provision.

1. Access to carefully limited Social Security and Internal Revenue Service data should be established for all borrowers in default on a Guaranteed Student Loan.

The information needed would be limited to the current address of the borrower and, if available, the name and address of the borrower's employer. Let me stress that no income data is needed or desired.

An additional incentive for guarantee agencies to intensify collection activity on defaulted loans can be obtained with a minor change in the reinsurance trigger calculation.

2. The reinsurance trigger should be based upon the net cost of defaults (default purchases less collections) rather than solely on default purchases.

   Although current provisions of the law provide sufficient funds to cover collections costs, there is no advantage to be gained by an agency from having a successful collections operation on loans that are fully reinsured. The reinsurance trigger mechanism provides an incentive to keep defaults at a low level but no real incentive to take further action after the loan has been purchased.

D. Reduction of Program Costs

There are several simple ways in which program costs can be reduced. Students could be required to pay more interest. Fewer loans could be made. Subsidies to lenders could be reduced. All of them would work to the detriment of the students and to the detriment of the Federal program providing the greatest assistance at the lowest cost.

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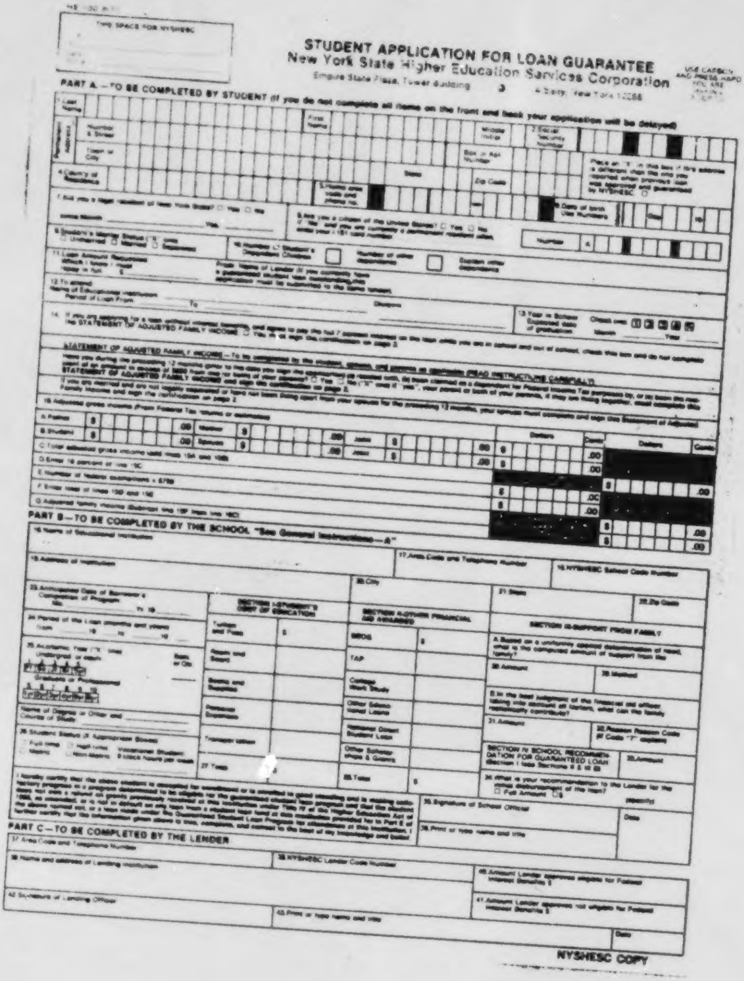
Much of the concern over rising costs stems from the rapidly rising special allowance payments. These payments have shot up because the cost of money has risen so sharply in the last year. When money is expensive, it will cost the purchaser more whether the purchaser is a bank or the Federal government. When money costs come down, the special allowance payments will come down. The average special allowance rate in 1976 and 1977 was under two percent. Had the current formula been in effect in 1974, the special allowance would have been 4 3/4 percent. Rates have adjusted themselves before. There is no reason to believe they will not again. We should not take radical action such as scrapping the current program and substituting a national loan bank in response to a temporary phenomenon. We should look for ways to cut costs in the program as it is currently structured.

I, therefore, propose a method through which Federal expenditures for default purchases could be reduced.

1. Advances should be made to lenders for amounts due on delinquent loans.

   Currently, when a loan becomes delinquent and enters default status, the entire loan is purchased from the lender. The guarantee agencies should be authorized to use Federal advance funds to make the monthly payments that are not being made by the borrower for a period of up to one and one-half years. This period could be used to apply intense efforts to get the borrower into repayment status. Experience has shown that many borrowers begin repayment after their student loans have been purchased as defaults. Our own collections unit is now collecting one million dollars per month on loans which have been fully purchased in default. The Federal government will have saved the full capital cost of purchasing the loans on accounts that are returned to repayment status. On accounts that do not resume repayment, the Federal government will have deferred the payment of the full cost of default purchases. On accounts that return to repayment status, the repayment terms would include repayment of the advances made to the lenders. Participation in such a program would be at the option of the lenders. Similar techniques are used in the Government National Mortgage Association.



THIS SPACE FOR NYSHESC

STUDENT APPLICATION FOR LOAN GUARANTEE
New York State Higher Education Services Corporation

Empire State Plaza, Tower Building 3 Albany, New York 12255

PART A.—TO BE COMPLETED BY STUDENT (If you do not complete all items on the front and back your application will be delayed)

1 Last Name
First Name
Middle Initial
2 Social Security Number
Permanent Address: Number & Street
Town or City
Box or Apt Number
4 County of Residence
State
Zip Code
5 Home area code and phone no.
Place an "X" in this box if this address is different than the one you reported when previous loan was approved and guaranteed by NYSHESC ☐
7 Are you a legal resident of New York State? ☐ Yes ☐ No
Since Month ________ Year ________
8 Are you a citizen of the United States? ☐ Yes ☐ No
6 Date of birth Use Numbers Month Day 19
Number A
9 Student's Marital Status ("X" one) ☐ Unmarried ☐ Married ☐ Separated
10 Number of Student's Dependent Children ☐
Number of other dependents ☐
Explain other dependents
11 Loan Amount Requested $
12 To attend Name of Educational Institution
Period of Loan From ________ To ________
13 Year in School Expected date of graduation Check one: 1 2 3 4 5 Month ________ Year ________
14 If you are applying for a loan without interest benefits, and agree to pay the full 7 percent interest on the loan while you are in school and out of school, check this box and do not complete the STATEMENT OF ADJUSTED FAMILY INCOME. ☐

STATEMENT OF ADJUSTED FAMILY INCOME

15 Adjusted gross income (From Federal Tax returns or estimates)

							Dollars	Cents	Dollars	Cents
A Father	$	.00	Mother	$	.00	Joint	$	.00		
B Student	$	.00	Spouse	$	.00	Joint	$	.00		
C Total adjusted gross income (add lines 15A and 15B)							$	.00		
D Enter 10 percent of line 15C							$	.00		
E Number of federal exemptions × $750									$	.00
F Enter total of lines 15D and 15E							$	.00		
G Adjusted family income (Subtract line 15F from line 15C)							$	.00		
									$	.00
									$	.00

PART B—TO BE COMPLETED BY THE SCHOOL "See General Instructions—A"

16 Name of Educational Institution
17 Area Code and Telephone Number
18 Address of Institution
19 NYSHESC School Code Number
20 City
21 State
22 Zip Code
23 Anticipated Date of Borrower's Completion of Program Mo. ________ Yr. 19 ________
24 Period of the Loan (months and years) From ________ 19 ________ to ________ 19 ________
25 Academic Year ("X" one) Undergraduate 1 2 3 4 5 Graduate or Professional 6 7 8 9 10
Name of Degree or Other and Course of Study ________
26 Student Status (X Appropriate Boxes) ☐ Full-time ☐ Half-time ☐ Matric ☐ Non-Matric Vocational Student: clock hours per week

SECTION I-STUDENT'S COST OF EDUCATION		SECTION II-OTHER FINANCIAL AID AWARDED	
Tuition and Fees	$	BEOG	$
Room and Board		TAP	
Books and Supplies		College Work Study	
Personal Expenses		Other Guaranteed Loans	
Transportation		National Direct Student Loan	
27 Total	$	Other Scholarships & Grants	
		28 Total	$

SECTION III-SUPPORT FROM FAMILY
A Based on a uniformly applied determination of need, what is the computed amount of support from the family?
29 Amount
30 Method
B In the best judgment of the financial aid officer, taking into account all factors, what can the family realistically contribute?
31 Amount
32 Reason Code (If Code "7" explain)
SECTION IV SCHOOL RECOMMENDATION FOR GUARANTEED LOAN (Section I less Sections II & III)
33 Amount
34 What is your recommendation to the Lender for the initial disbursement of the loan? ☐ Full Amount ☐ $ ________ (specify)
35 Signature of School Official
Date
36 Print or type name and title

PART C—TO BE COMPLETED BY THE LENDER

37 Area Code and Telephone Number
38 Name and address of Lending Institution
39 NYSHESC Lender Code Number
40 Amount Lender approves eligible for Federal Interest Benefits $
41 Amount Lender approves not eligible for Federal Interest Benefits $
42 Signature of Lending Officer
43 Print or type name and title
Date

NYSHESC COPY

PART A Continued—To Be Completed By Student

44 Student's drivers license #	Issuing State	45 Veteran (✓ one) Yes No	46 Spouse's Date of Birth	Mo. Day Year
47 Student's Employer (name of firm, street, city, state and telephone number) (✓ one) Full time Part time		48 Spouse's Employer (Name of firm, street, city, state and telephone number) (student) (✓ one) Full time Part time		
Date of Employment From ______ To ______		Date of Employment From ______ To ______		

LIST ALL INDEBTEDNESS INCLUDING NYSHESC LOANS (If additional space is necessary, continue on a separate sheet.)

49 Education Loans Name of Lender, City and State	Name of Program	Date of Loan	Amount Owed	When Due
	NYSHESC			
	NDSL/NURSING			
	Fed. Ins. Student Ln.			
	Other			
50 Other Debts Name of Lender, City and State-Acct. Number	Purpose of Loan		Unpaid Balance	Monthly Payment

51 Reference must be borrower's parent, or if deceased, nearest living adult relative or spouse or in-laws	Relationship	Date of Birth Mo. Day Year	Full name of reference's spouse
Full Name	Address (street, city, state and zip code)		Employer (firm name, street, city and state)
Area Code and Telephone Number			

CREDIT AND CHARACTER REFERENCES (These Persons Must Be Employed And Be Residents Of The Same State As The Student)

52 Reference must be an adult with whom borrower has frequent contact. Fellow students and school personnel are not acceptable.	Has the reference agreed to the use of his/her name? ☐ Yes ☐ No	Full name of reference's spouse
Full name	Address (street, city, state and zip code)	Reference's Employer (firm name, street, city and state)
Area Code and Telephone Number		
53 Reference must be an adult with whom borrower has frequent contact. Fellow students and school personnel are not acceptable.	Has the reference agreed to the use of his/her name? ☐ Yes ☐ No	Full name of reference's spouse
Full Name	Address (street, city, state and zip code)	Reference's Employer (firm name, street, city and state)
Area Code and Telephone Number		

NOT EVERYONE MUST COMPLETE ITEMS 54 THROUGH 66. READ INSTRUCTIONS CAREFULLY.

CURRENT FAMILY ASSETS AND NON-TAXABLE INCOME		54 Home Equity	55 Other Real Estate Equity	56 Total Equity Business or Farm	57 Checking and Savings Accounts	58 Other Investments	59 Non Taxable Income (Social Security, AFDC, etc.)	60 Alimony $ Child Support $
	Father and Mother	$	$	$	$	$	$	
	Student and Spouse	$	$	$	$	$	$	

FAMILY INCOME TAX DATA		61 Fed. Income Tax Paid Last Year	62 Number Persons Claimed As Tax Dependents	63 Age of Major Wage Earner	64 Additional Educational Expenses? No. children in college ☐ ☐ Yes ☐ No	66 Marital Status Applicant's Parents ☐ Married ☐ Widowed ☐ Divorced ☐ Deceased ☐ Separated ☐ Other
	Father and Mother				65 Extraordinary Family Expenses and Situations? ☐ Yes ☐ No	
	Student and Spouse					

WARNING: "Criminal Penalties" Any person who knowingly and willfully embezzles, misapplies, steals, or obtains by fraud, false statement, or forgery any funds, assets or property provided or insured under Part IV of the Higher Education Act of 1965, as amended shall be fined not more than $10,000 or imprisoned for not more than five years, or both, but if the amount so embezzled, misapplied, stolen or obtained by fraud, false statement, or forgery does not exceed $200, the fine shall be not more than $1,000 and imprisonment shall not exceed one year, or both.

"I (each of the undersigned) certify that I have read this application and that the information provided by me is accurate and complete to the best of my knowledge. I authorize the United States Commissioner of Education or his representative to obtain, from the District Director of Internal Revenue with whom it was (they were) filed, a copy of the pertinent Federal Income Tax returns in order to verify any financial information reported on this form or submitted to another party in connection with this application. I further agree to provide, if requested, any other documentation necessary to verify such information. I further authorize the Educational Institution to release to the Lending Institution or the Guarantor any information requested by such persons pertinent to this loan (i.e., Employment, Enrollment Status, Current Address, etc.). I, the student, affirm that the proceeds of this loan will be used solely for expenses related to attendance at the Educational Institution named herein and that I, the student, am not in default on any loan made under the Guaranteed Student Loan Program for attendance at the school listed on this application.

67 Signature of Father	Social Security Number	71 Subscribed and sworn by Student Before me this ______ day of 19 ______ Notary Public Notary's Address Commission Expires
68 Signature of Mother	Social Security Number	
69 Signature of Spouse	Social Security Number	
70 Signature of Student (Signed before Notary)		

HB 100 3/79

STUDENT LOAN APPLICATION

NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION
EMPIRE STATE PLAZA – ALBANY, NEW YORK 12255

PRESS HARD
USE CARBON
You are making three copies

PART A Completed by Student

1 Social Security Number ☐☐☐ ☐☐ ☐☐☐☐ ●

2 Date of Birth (Use Numbers) Month ☐☐ Day ☐☐ Year ☐☐ ●

3 Last Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐ First Name ☐☐☐☐☐☐☐☐☐☐ Middle Initial ☐ ●

4 PERMANENT ADDRESS Street (Include box or Apt. Number) ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ ●

City, Town or Village (Abbreviate if necessary) ☐☐☐☐☐☐☐☐☐☐☐☐☐ State ☐☐ Zip Code (Must be completed) ☐☐☐☐☐ ●

5 CITIZENSHIP CATEGORY
Check ONLY one
1 ☐ U.S. Citizen or National
2 ☐ Resident Alien (I-151 or I-551 card) or refugee paroled under authority of United States Attorney General ●
3 ☐ None of the above

(Enter Alien Registration Number) ☐☐☐ ☐☐☐ ☐☐☐

6 Have you received a previous student loan guaranteed by New York State? (NYHEAC or NYSHESC) (Check one)
1 ☐ Yes
2 ☐ No ●

7 Have you been a legal resident of New York State for the 12 months immediately prior to the beginning of the academic period of this loan? (Check one)
1 ☐ Yes
2 ☐ No ●

8 County in which you reside (See instructions and enter County Code) ☐☐ ● County Code

9 Loan amount requested for this application $ ☐ .00

10 Lender Name and Address (If you currently have an outstanding student loan, this application must be submitted to the same lender.) ____________

11 Name of School and Division ____________

12 Course of Study ____________

13 Academic Period of Loan (Use numbers) (see instructions) From ☐☐ ☐☐ To ☐☐ ☐☐
Month Year Month Year

PART B Completed by School

COMPLETE ITEMS 14–28 ON REVERSE SIDE

29 NYSHESC School Code ☐ ●
USE STAMP

30 Enrollment Status
1 ☐ Full time 2 ☐ Half time ●

31 Class Year Undergrad. or Equiv. / Grad. or Profess.
Check ONLY one

Fr	So	Jr	Sr	5yr	1yr	2yr	3yr	4yr	5yr
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐ ●
1	2	3	4	5	5	6	7	8	9

Semester or Quarter ______

32 Academic Period of Loan From To (Use Numbers) ☐ ☐ ☐ ☐ ●
Month Year Month Year

33 Estimated Cost of Attendance for the Period of Loan in Item 32 $ ☐ .00 ●

34 Financial Aid for the Period of the Loan in Item 32 $ ☐ .00 ●

35 Anticipated Date Program Completion (Use Numbers) ☐ ☐ ●
Month Year

36 School Name, Division and Telephone Number ____________

School Address ____________

I hereby certify that the above named student is accepted for enrollment or is enrolled in good standing and is making satisfactory progress in a program determined to be eligible for the Guaranteed Student Loan Program and that the student does not owe a refund on grants previously received at this institution under Title IV of the Higher Education Act of 1965, as amended, or is not in default on any loan from a student loan fund at this institution provided for in Part E of the above named act, or a loan made under the Guaranteed Student Loan Program for attendance at this institution. I further certify that the information given above is true, complete, and correct to the best of my knowledge and belief.

37 ____________
Signature of authorized school official | Print name and title | Date

PART C – Completed by Lender

38 NYSHESC Lender Code ☐ ●
USE STAMP

39 Amount Lender Approves $ ☐ .00 ●

40 Lender Name, Address and Telephone Number ____________

41 ____________
Signature of authorized lending official | Print name and title | Date

NYSHESC COPY (ORIGINAL)

PART A · Statement · Completed by Student

[illegible]

19 Social Security Numbers of Parents or Spouse Name ____ Social security number ☐☐☐☐☐☐☐☐☐

Name ____ Social security number ☐☐☐☐☐☐☐☐☐

20 Student's Bank Account Name and Location of Bank ____

____ Account No. ____

(21) State in which student's driver's license was issued ☐☐

22 Student's Employer's Name ____ Employer's Telephone Number ☐☐☐☐☐☐☐☐☐☐

23 Educational Loans other than NYSHESC or NYHEAC Loans

Name of Program	Name of Lender, City and State	Total Amount Owed	Amount Borrowed During the Period of this Loan
NDSL / NURSING	____	$ ____	$ ____
Fed. Ins. Student Loan	____	$ ____	$ ____
Guaranteed Student Loan From Another State	____	$ ____	$ ____

24 REFERENCE MUST BE BORROWER'S NEAREST LIVING ADULT RELATIVE

Full Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ Telephone Number (Include Area Code) ☐☐☐☐☐☐☐☐☐☐

Permanent Street Address (Include Box or Apt. Number) · City, Town or Village · State · Zip Code

Date of Birth ☐☐☐☐☐☐ Relationship to Applicant ____ Name of Reference's Spouse ____

Employer's Name ____ Employer's Telephone Number (Include Area Code) ☐☐☐☐☐☐☐☐☐☐

25 REFERENCE MUST BE BORROWER'S NEAREST LIVING ADULT RELATIVE NOT RESIDING AT THE ADDRESS INDICATED IN ITEM 24

Full Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ Telephone Number (Include Area Code) ☐☐☐☐☐☐☐☐☐☐

Permanent Street Address (Include Box or Apt. Number) · City, Town or Village · State · Zip Code

Date of Birth ☐☐☐☐☐☐ Relationship to Applicant ____ Name of Reference's Spouse ____

Employer's Name ____ Employer's Telephone Number (Include Area Code) ☐☐☐☐☐☐☐☐☐☐

26 REFERENCE MUST BE AN ADULT WITH WHOM BORROWER HAS FREQUENT CONTACT – Students and School Personnel are not acceptable

Full Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ Telephone Number (Include Area Code) ☐☐☐☐☐☐☐☐☐☐

Permanent Street Address (Include Box or Apt. Number) · City, Town or Village · State · Zip Code

Employer's Name ____ Employer's Telephone Number (Include Area Code) ☐☐☐☐☐☐☐☐☐☐

WARNING – [illegible] Penalties": Any person who knowingly and willfully embezzles, misapplies, steals, or obtains by fraud, false statement, or forgery any funds, assets or property provided or insured under Part IV of the Higher Education Act of 1965, as amended shall be fined not more than $10,000 or imprisoned for not more than five years, or both; but if the amount so embezzled, misapplied, stolen or obtained by fraud, false statement, or forgery does not exceed $200, the fine shall be not more than $1,000 and imprisonment shall not exceed one year, or both.

[illegible]

27 ____
Signature of Student (signed before Notary)

28 SUBSCRIBED AND SWORN BY STUDENT (Notarize NYSHESC Copy)
BEFORE ME THIS ____
MONTH, DAY, YEAR

Notary Public ____
Notary's Address ____
Commission Expires ____

TOP 25 OF ALL BANKS, GSL PROGRAM, 1978-79*

Rank	Bank Code	Name of School	Amount of Loans Guaranteed
1	0221	Citibank of New York N.A.	$ 27,176,608.00
2	0067	Chemical Bank	20,727,341.00
3	0065	Chase Manhattan Bank	19,920,673.00
4	0289	Manufacturers Hanover Trust Company	19,045,202.00
5	0678	Dollar Savings Bank of New York	11,399,928.00
6	0660	Bowery Savings Bank	11,116,567.00
7	0676	Dime Savings Bank of New York	10,517,593.00
8	0291	Marine Midland Bank Center	9,407,385.00
9	0042	Bankers Trust Company	9,043,964.00
10	0097	Bank of New York Company Trust Region	8,422,636.00
11	0688	Erie Savings Bank	8,141,997.00
12	0665	Buffalo Savings Bank	7,335,619.00
13	0723	New York Bank for Savings	6,802,929.00
14	0293	Marine Midland Bank, Western	6,613,603.00
15	0274	Lincoln First Bank of Rochester	5,840,511.00
16	0232	European-American Bank	5,583,157.00
17	0709	Jamaica Savings Bank	4,924,382.00
18	1073	Suffolk Company Federal Savings & Loan Association	4,664,050.00
19	0776	Williamsburgh Savings Bank	4,626,109.00
20	0680	Metropolitan Savings Bank	4,411,967.00
21	0664	Brooklyn Savings Bank	4,372,758.00
22	0714	Lincoln Savings Bank	4,072,951.00
23	0290	Marine Midland Bank, New York	3,633,767.00
24	0338	National Commerical Bank & Trust Company	3,366,217.00
25	0686	Emigrant Savings Bank	3,299,725.00
		TOTAL OF ABOVE	$ 225,467,639.00
		GRAND TOTAL OF ALL BANKS	$ 446,108,978.00

Source : Loans Guaranteed Stat. Report
* Fiscal Year 4-1-78 to 3-31-79

Research & Statistics 5-79

TOP 25 COLLEGIATE SCHOOLS, GSL PROGRAM, 1978-79*

Rank	School Code	Name of School	Amount of Loans Guaranteed
1	0280000	Columbia University	$ 16,209,166.00
2	0910000	New York University	15,693,814.00
3	2140000	Long Island University	8,846,344.00
4	1160000	St. John's University	8,058,360.00
5	1540000	SUNY at Buffalo	7,716,631.00
6	0600000	Fordham University	6,872,136.00
7	1510000	Syracuse University	6,398,675.00
8	0670000	Hofstra University	6,063,615.00
9	0310000	Cornell University	6,040,438.00
10	1320000	SUNY at Albany	5,484,387.00
11	1060000	Rochester Institute of Technology	4,939,338.00
12	1630000	Yeshiva University	4,926,939.00
13	1330000	SUNY at Brockport	4,897,746.00
14	0010000	Adelphi University	4,702,403.00
15	1250000	SUNY at Stony Brook	4,230,052.00
16	0970000	Pace University	3,968,364.00
17	1400000	SUNY at Oswego	3,906,668.00
18	1240000	SUNY at Binghamton	3,207,954.00
19	1410000	SUC at Plattsburgh	3,189,770.00
20	1350000	SUNY at Cortland	3,173,334.00
21	1370000	SUNY at Geneseo	3,135,224.00
22	1260000	SUNY Agriculture & Tech. College at Alfred	3,094,132.00
23	0220000	Clarkson College	2,973,116.00
24	1550000	University of Rochester	2,968,333.00
25	0520000	Hunter College	2,837,547.00
		TOTAL OF ABOVE	$ 143,714,926.00
		GRAND TOTAL OF ALL COLLEGIATE SCHOOLS	$ 304,489,366.00

Source: Loans Guaranteed Stat. Report, 1978-79;
All branches are included under these codes.
*Fiscal year 4-1-78 to 3-1-79

Mr. **Ford**. Thank you, Mr. Laird.

STATEMENT OF DAVID LAIRD, DEPUTY EXECUTIVE DIRECTOR, MINNESOTA COMMISSION ON HIGHER EDUCATION, STATE HIGHER EDUCATION EXECUTIVE OFFICERS

Mr. **Laird**. Thank you, Mr. Chairman.

I am David Laird, deputy director of the Minnesota Higher Education Coordinating Board, representing the State Higher Education Executive Officers—SHEEO. It is a special privilege to take part in today's discussion on Federal loan policy and to represent my colleagues in the several States whose primary concern is to promote the most effective means of meeting the postsecondary education needs of our citizens.

I would like to go through my testimony generally, Mr. Chairman, and expand on it as I do so. I recognize that many of the things I have to say this morning will be similar both in substance and emphasis to my colleagues here. I will repeat them because I think they need emphasis.

We take very seriously the concerns expressed by Members of Congress about the effectiveness of current loan policies and have given attention, as well, to the issues identified by Secretary Califano in his testimony to the subcommittee on March 20, 1979. As you ponder the policy questions and the variety of proposed alternatives, we think it is important to remember that most States have had only two legislative sessions to respond to the challenges in loan policy and operations which Congress issued in the education amendments of 1976.

We think the cornerstone of that policy is the necessity of a Federal-State-private partnership. I think Ms. Dickenson's comments emphasized that greatly. In many States there is encouraging evidence that such an approach is viable and several States are on the threshold of active participation in the partnership. The assumption that this policy approach will not work is premature, unwarranted, and at variance with the evidence of several States for example Minnesota, New York, Pennsylvania, Virginia, New Jersey, New Mexico, Texas, Wisconsin, Kentucky, Kansas, and North Dakota.

With your permission I will use our experience in Minnesota as an example of an effective response to the 1976 amendments. Within the past 2 years the following has occurred:

A private guarantee agency—Higher Education Assistance Foundation—was designated to guarantee GSL loans in the State.

Since that time, the participation of private lenders in both volume and number has increased.

The State-operated lender of second resort program has increased in volume each year.

The State program has sold two successful revenue bond issues, $37 million in 1977 and $38,250,000 in 1978, to provide revenue for State-offered loans.

Indicators of effective management and servicing have continued to receive very high recognition and acceptance.

However, the single most important indicator of the genuine success of the guaranteed student loan program in Minnesota is the fact that every Minnesota student who meets Federal eligibility

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requirements is assured access to a guaranteed student loan as needed, as in New York State and other States. When I use Minnesota students, I refer to our residents attending Minnesota institutions, nonresidents attending Minnesota institutions, and Minnesota residents attending qualified institutions in other States around the country. This assured access is important for students, their families, and institutions alike. Our legislature, financial community, institutional community, and private guarantor believe that we have met the challenges issued in 1976 and are confident of continuing to meet the needs of our students in the foreseeable future. That confidence is founded on an active Federal presence in the partnership, which we assure involves risk, cost, and some portion of the satisfaction in the achievements of our students.

While I am not prepared to discuss other State experiences in similar detail, there are successful activities occurring in several other States, and we believe that there are basic ingredients which may be transferred from one set of circumstances to others. These essential criteria are not new or magic. They are: (1) State policy commitment, (2) effective management, (3) sound financing, (4) student awareness, (5) effective servicing, and (6) continued evaluation.

We believe it is possible to operate successful student loan programs within the current Federal-State-private partnership called for under the amendments of 1976.

Another important factor in our confidence for the future is the emerging role of guarantee agencies in many States. Prior to the 1976 amendments half of the States depended upon direct Federal insurance through the FISL program for loans made by both commercial lenders and State loan programs.

Although many of us did not support the guarantee agency approach, indications are that your efforts to stimulate the use of such agencies were well founded and several advantages are in evidence. In many States loan applications are processed more rapidly and guarantees are being issued with greater regularity than at any time under the FISL program. Similarly, default claims are being processed routinely and procedures are greatly simplified. Many of us are finding guarantee agencies more sensitive to the needs and interests within each State, and perhaps more important, there is a ready resource to assist lenders and borrowers within all aspects of the student loan program. These improvements and efficiencies are the direct result of the incentives and requirements which Congress enacted in 1976, and the members of SHEEO have endorsed a continuation of Federal policy to encourage the development and operation of State loan guarantee agencies.

SHEEO members are also very sensitive to the documented abuses and costs related to the operation of some loan programs and some lenders. We believe that care should be taken at the State as well as the Federal level to prevent an overemphasis on student loans as a financing tool. A balance among grant, work, and loan assistance tailored to the individual characteristics of students is advocated as a means of achieving social as well as individual objectives. If Congress is faced with the necessity to reduce Federal costs in the GSL program, SHEEO members urge consideration or reconsideration of reinstatement of an income ceiling for in-school subsidies as a means of limiting future expenditures.

We also share Secretary Califano's concern about the proliferation of specific targeted loan programs and the uneven effects of the several now in existence. Our analysis, however, has resulted in the endorsement of an approach which differs dramatically from that which he has offered. We propose that you use the effective elements and incentives of the GSL as a magnet and provide a staged transition of other loan activities into this framework.

As a first step we would recommend converting the national direct student loan program (NDSL) program into a State-operated program insuring student access to loans not otherwise served in the private market—in other words, a program of second resort.

The essential ingredients in such a transition would have to be assurance of access for students, policy decisions on interest rates, eligibility, repayment schedules, transfer of existing loan accounts, and the institutional allowance. These would represent serious decisions, but we are confident that the GSL framework with a statewide focus can effectively manage such a transition in a manner which would be acceptable to Federal, State, and institutional interests at the same time, while maintaining the primary objective of serving student needs.

We are cognizant of the questions which have been raised about the performance and need for Sallie Mae as the secondary market for student loan financing. While we support the requirement that any body chartered by the public must be periodically reviewed, we are most anxious that the essential role of a secondary market receive its proper attention.

With your permission I will draw again on our experience in Minnesota. The State student loan program in our State has been financed since 1974 with the proceeds from general revenue bonds. Under some circumstances in the past 5 years advance commitments from Sallie Mae have been essential for reasonable rates and marketability of those bonds in the market. As our program has matured, the opportunity to sell GSL paper to Sallie Mae has made it possible to effectively manage total program obligations and encourage further confidence among the rating agencies and potential bond holders. While we might advocate some fine tuning in the expectations for Sallie Mae, we think it would have been improbable to achieve our present level of success without an effective secondary market.

Recognizing the important role which Sallie Mae has played in several States, and the potential for that in States now establishing their own programs, SHEEO recommends a perpetuation of the secondary market through the Student Loan Marketing Association authority.

In sum, the association of State Higher Education Executive Officers recommends that future Federal policy in the area of student loans be based upon the following:

One, a continuation of the Federal-State-private partnership established in the education amendments of 1976;

Two, a commitment to access for all eligible borrowers by a combination of private and State lending;

Three, a continuation of the effective role of statewide guarantee agencies;

Four, a comprehensive approach to meeting student financial need in which loan programs are effectively coordinated with grant and work programs;

Five, a consolidation of existing loan programs within the framework of the GSL program; and

Six, a continuation of an effective secondary market through the Student Loan Marketing Association authority.

Thank you, Mr. Chairman and members of the committee. I will be happy to answer any questions, Mr. Chairman.

Mr. **Ford**. Thank you very much. I am persuaded there is some substance to the rumor that the administration has a new plan. The people at the table seem to know what is in it more than the rest of us do, which I think puts you ahead of most everybody at the Office of Education. Perhaps that is not quite fair. The pencil pushers down at the other end of the street have difficulty understanding the administration. Trying to sell OMB is something else and we have not made a good record in selling OMB.

Mr. Laird, you mention in your testimony that a number of States had only two sessions of the legislature since the 1976 changes in the law. The 1976 changes in the law were a final attempt by us to force the States into creating State guarantee agencies. So there were a lot of sessions of the legislature prior to 1976.

What bothers me is the confidence expressed by all of you, as a matter of fact, in continued progress toward getting State guarantee agencies. I am looking at an imperfect, correct me if I am wrong, list. Here are the States which have not moved: Alabama, Arizona, California, Colorado, Hawaii, Idaho, Mississippi, Missouri, Montana, Nebraska, North Dakota—which amuses me, because it is the only State in the country that is in the banking business—Puerto Rico, South Dakota, Texas, Washington—which is about to sign on—West Virginia. It involves the largest, most populous States and some of the very small States by population.

Why are we sitting here at this point, still wondering whether or not States of this wide variety of sizes and shapes and geographical locations are going to get into the business?

Mr. **Laird**. Mr. Chairman, I would like to respond partially, and also indicate that I think it might be helpful if we try to get updated information on the status in each of those States.

Mr. **Ford**. What is your hunch? You are a person in the business and you have a close acquaintanceship with the situation. I assume you were at the convention recently. What is your hunch as to why we are sitting here with 10 States, including our largest one, not moving ahead?

Mr. **Laird**. It is my understanding, Mr. Chairman, that California is well on the way to the establishment of theirs. My hunch is that the problems in these developments are not organic. It is a matter of education and balancing the internal interests of the State against one another. That sometimes takes a good amount of time. Perhaps my colleagues have something additional to offer on that.

Ms. **Wennerdahl**. The State of California started guaranteeing loans April 1 this year. There are also a couple of other States on that list of yours that have completed legislative activity to establish an agency. There are quite a few States, such as Colorado, which expect to have a bill on the Governor's desk for signature within a few days. Quite candidly, there were a few of them that had plans for an agency under way almost 1 year ago. The wild rumors that this program will be terminated in favor of a National Student Loan Bank caused a half dozen States to decide to wait a year to see if Congress was going to follow through or not.

Mr. **Ford**. Ms. Wennerdahl, you are aware that last year the State of Colorado made only 5,000 guaranteed loans in the whole State?

Ms. **Wennerdahl**. Under the FISL program, that is true. That is why there is a bill on the Governor's desk to start operation.

Ms. **Dickinson**. If I can bring you back to 1975 and 1976. In 1976—and there is a board member here from Pennsylvania who will speak to this—they were going to get out of this program unless they got 100-percent reinsurance and 30 percent on collections. In New York State, in 1974, there was an audit of the New York State program by the State Department of Audit and Control. They were interested in pulling out of the program. The State of New York was in very serious financial trouble—you may remember in the fall of 1975—State Comptroller Arthur Levitt could not sell $9 million worth of New York paper in anticipation of the spring borrowing. The State Division of the Budget was questioning whether the State could carry the program financially. All State guarantee agencies were then on a very serious downhill slide. Your amendments, as I recall, were signed October 12, 1976. A whole turnabout in the psychology had to occur and then be followed, as Mr. Laird has said, by action in the actual legislative sessions in other States and in the final implementation of the amendments. I was impressed at the NCHELP Lauderdale convention by the number of States that were there and who were excited about the progress being made toward creating the guarantee agencies.

Mr. **Ford**. I would like to add that the administration, by floating rumors—and that is all they are as far as I am concerned at this point—has certainly provoked the strongest support for the status quo that we have heard. Everybody who has appeared in our hearings on student loans has made a very strong case for the existing student loan program. The interesting thing is that it has not been possible to get people to stick their necks out that far in supporting the current programs in the past with this committee. If the administration never gets their bill up here, they have accomplished something by bringing the educational committee, in the style of Richard Nixon, I suppose, of bringing everyone together. It is to be very encouraging, that these kinds of very positive statements can be made in light of the terrible beating we have been taking in the media for the last couple of years about the student loan program.

I have one final question. Not only spokesmen for the administration but others are saying since the passage of the Middle Income Student Assistance Act last year, we, actually by taking the income limits off the guaranteed student loan program, are threatening the creation of an elite loan program that will have middle class and wealthy students sucking up all the available capital so there will be none left for the low-income students.

Is there any validity to that assertion or any evidence that you see in your States, that this is in fact happening?

Ms. **Dickinson**. In 1976, you raised the income ceiling from $15,000 to $25,000 for subsidized loans. New York State had earlier instituted a program of subsidy for income levels up to $30,000. The student paid 3 percent and the State paid 4 percent of the 7 percent on those loans. We had an enormous increase in loan volume. The formal opening of the program to a $25,000 income ceiling was a major factor in the public's seeking loans. In the period from 1976-77 to 1977-78 to 1976, we saw an increase in loan volume of almost 40 percent, based in large measure on the increase in the income ceiling.

There has been no evidence of a shortage of capital. We have a close relationship with our lenders; they are delighted to lend to upper-income families. Those upper-income families would have come in had they known they were welcome. Also, there is no question that we have been able to observe—and we have had this on the books now since November—an accompanying interest in the low-income, vocational school or inner-city resident. There will not be a shortage of capital, Mr. Ford, unless we do not pay the lenders. I go back again to the special allowance. If the return is equitable, the banks want to go along with it. We have built a very solid constituency in the banking community in many States where loan money is available for everyone.

Ms. **Wennerdahl**. Mr. Chairman, I make this comment with a little fear and trepidation, but after listening to the committee for the last couple of days, it seems we are in sore need of data. One of the frustrations this committee feels at this time is going to be magnified many-fold when they try to review the status of this program in another few years. They will not have the ability to find out who the program is serving.

My unscientific reaction is that I agree with Eileen. There are higher income loans being made. Perhaps the lenders will testify and those who have actually talked to the students can give you a better idea of that. What I am suggesting is that the committee not consider retreating to the days where there was a full page on our applications asking for income information. However, if this subcommittee is going to continue to ask income questions, we at least need to place a box on our application where the family can check income ranges. I think we can do that without increasing the cost of the application processing.

Mr. **Ford**. I would respond to that by calling your attention to the language that you succeeded in putting in the act in 1976—at least you were one of the principal people responsible for it—directing your Commissioner to collect information and prepare it so that we could understand what was happening for loans made after December 31, 1976. Following our discussions a day or two ago, I directed the staff to prepare a letter to the Commissioner which in a less diplomatic way said: "Where the hell is it? It has been since 1976 and we have not seen the information."

Presumably somebody over there is following the law occasionally and there must be somebody in the back room working on gathering the information this committee has been asking for for the last 2 days, was asking for in 1972, but the answers are never forthcoming.

You use the expression"your gut reaction," we have been operating with that kind of reaction for years and it is very unsatisfactory. This legislation has not invented benign neglect with respect to monitoring these programs, but they have perpetuated that which has been going on since the inception of the program.

We cannot continue these programs under the rain of fire we are receiving constantly unless we are able to come up with the answers to the questions we have been asking. That is why we have to turn to people like you to give us impressions on the basis of your direct experience with the program. We do not have national statistics to answer questions like my question about why 10 States are not moving into the program.

Ms. WENNERDAHL. Mr. Chairman, may I comment? I am delighted that you are asking the administration for the data under 432(c). It has been many years forthcoming. But all that data will give you, if they can come up with it, is loan volume and default data by lender, by guarantor, by State. The information being requested of several of the witnesses over the last couple of days has been about individual borrower demographics. Neither the administration nor we can tell you whether those loans are going to high- or low-income students unless we are able to, over in a little corner of our application, have an appliant check an income range. There is no other way to collect that data except through postaudit surveys, and I do not think that would be effective or accurate.

Mr. FORD. We only took the limit off 6 months ago, but during the entire time before that income information was collected. Do not any of the State agencies keep track in the State?

Ms. WENNERDAHL. We have income data up to that date. I am trying to address our appearance before you in the next 5 years.

Mr. FORD. Can you tell us, Eileen, who gets the NDSL loans in New York?

Ms. DICKINSON. No, I cannot; I have no connection with that.

Mr. FORD. What about GSL?

Ms. DICKINSON. We will get those for you at the earliest moment. We will have to check what is on the system.

Mr. FORD. If you could give us that at least, we would have one State, and it is a very large State, with all the characteristics of all the other States in one form or another. If you could give us the best information you have available on what the distribution of loans has been and is currently. Perhaps——

Ms. DICKINSON. We can do that up to the distribution of our MISA application, which has no income information on it. But we do have information on the past, obviously in quite some detail, because in 1974, we first went to partial subsidy for family incomes of $15,000 to $30,000 and then retained the subsidy after the amendments were made for students from the $25,000 to $30,000 level. So that information should be available. Let me put together the best information on New York that we have.

Mr. FORD. Mr. Buchanan.

Mr. Buchanan. Have you any idea whether this kind of information may be generally available? I was wondering if other States might have comparable information.

Ms. Wennerdahl. I am sure all the States have collected this data and have it in their systems. I would have to poll my colleagues to see if it would take a special computer run to print it out. We run such a report twice a year in Illinois. I might observe, however, that it cannot in any way reflect the current or future impact of the Middle Income Student Assistance Act. It will give you an idea who was getting loans prior to MISAA.

Mr. Ford. I see Mr. Holtz. Is that information available?

Mr. Holtz. Yes, it is.

Ms. Dickinson. If there is any other information you need, you can get it from the guarantee States without any problem. We can at least tell you what is available by States and, as I said, detailed information on New York State is available. I think this is an important function of the council.

Mr. Buchanan. Excellent. I think Miss Dickinson will have a full-time job working for us.

Are you familiar with the preliminary results of the Touche-Ross study, as to the effectiveness of the State guarantee agency? Have you read the report?

Ms. Wennerdahl. I have.

Mr. Buchanan. I would love to hear the thrust of the preliminary result.

Ms. Wennerdahl. I hesitate to respond because there are representatives of Touche-Ross in the audience.

Mr. Ford. You know more about what is happening down the street than we do.

Ms. Wennerdahl. I am sure they will be happy to send members of the subcommittee a copy.

Mr. Buchanan. The chairman has said we will ask for a copy.

I think I will reserve my time because there are other members from the States here represented.

Mr. Ford. Mr. Biaggi.

Mr. Biaggi. Thank you, Mr. Chairman.

I would like to make the same observation you made in connection with the support of this student loan program that seems to be enjoying unanimity that heretofore seemed to be lacking. There was a paucity of support, but we are grateful for change.

I just have one question, and that is with relation to Miss Dickinson's comments on my bill, H.R. 3554. I am delighted that you support it, of course, but I think it is inevitable in the light of reality. For the record, that is the purpose of my question.

Failing to remove this 5-percent ceiling on special allowance you say would precipitate a student loan crisis.

Ms. Dickinson. I hope I said "could." People weathered 1974, and 1975, on a downslope. I think it would be a psychological crisis for the bankers, thrift institutions and credit unions, who have made a real commitment to this program. I think it could create problems, especially for first-time entrants into the system, for freshmen, baccalaureate program students. I am very much alarmed by it. I was very surprised last week to receive an urgent request from the consumer lender group in metropolitan New

York, to come to New York and report on what we were doing to try to raise the special allowance. The outflow of funds from thrift institutions has been a source of great alarm to the savings banks. They are now, as you know, peddling those 6-month certificates. They are in effect buying their own money back at much higher rates.

A great many savers in New York City, and now in Buffalo as well, are taking their money out of banks altogether and trying to beat inflation, looking to what they will need and anticipating only increases in prices. Now this also affects the commercial banks to the extent there is deposit money there and to the extent the banks have to buy money since they pay for money the same way a steel company pays for coke and iron. To the extent they have to buy money they will be less and less interested in making a loan which has an unpredictable amount of return. They cannot afford to buy money and sell it at a loss.

Mr. **Biaggi**. The net result being there would not be money available for students?

Ms. **Dickinson**. There would be less money available for students.

Mr. **Biaggi**. It is obvious; I am only making the statement for the record.

Ms. **Dickinson**. Mr. Biaggi, I would be remiss if I did not express our council's gratitude for your leadership in this regard. We appreciate your bill or any direction this committee can take in alleviating this coming problem.

Ms. **Wennerdahl**. I agree with Eileen's assessment. There are some lenders and our Student Loan Marketing Association that will be caught in a very real bind. As you know from testimony previously given, Sallie Mae borrows from the Federal Financing Bank at treasury bills plus a certain amount and turns around and lends it to our lenders. If our lenders have to pay Sallie Mae Treasury plus 1 and they are getting from the Federal Government Treasury plus 2, this gives them the 2½ margin. I mentioned earlier that I thought base cost was 2 percent. I think the bankers will tell you higher.

They will still have to pay Sallie Mae at Treasury plus 1. They may be only getting Treasury plus 1½ in the next quarter. So there are demonstrable areas where this ceiling is not recognized by the Federal Financing Bank, and the people counting on that margin for recovering their servicing costs will have to operate their servicing at a loss because of the ceiling.

Mr. **Biaggi**. You also indicated, Ms. Dickinson, on page 11, that the 5 percent should be removed before the reauthorization.

Ms. **Dickinson**. I believe it really must be. It must be done this month because we are looking at a rate that will be announced at the end of June. We are also looking at the congressional budget process and authorization process.

This is going to hit on July 1, and it is going to hit when the special allowance goes to 4 percent. It must go to 4 percent under the law in order to balance out at 5 percent for the year. It is not 6 plus.

Mr. **Biaggi**. That is all, Mr. Chairman.

Mr. **Ford**. I have before me an unsigned copy of a letter from Mr. Califano to the Speaker transmitting proposed legislation which I assume will get to us in the next day or two which would raise the ceiling on special allowance to 6 percent per annum and eliminate the 12-month basis for calculation. So for any given quarter, the special allowance cannot exceed the quarterly equivalent of 6 percent per annum which, according to the letter, is being recommended by the administration. That leaves a question as to whether 6 percent will do it, or whether Mr. Biaggi's proposal of a total removal of the limit would be a better way to do it. But we will have before us that recommendation which presumably OMB has approved. So, it is possible that we will be able to do something in time for the ensuing quarter.

It is marvelous when we and the administration get close to the same conclusion. Maybe we will get something done around here. You see, you introduced a bill and you shook them up and they are already up here with a counterproposal.

Mr. **Biaggi**. The question is, when will we ask the question is 6 percent enough.

Ms. **Wennerdahl**. We have discussed this among ourselves. As council members we believe this relief will be accepted gratefully. What we would rather have is 6 percent "in the hand" rather than a removed ceiling "in the bush."

Ms. **Dickinson**. I must say, there has not been an accurate forecast of interest rates this whole year. CBO has been off. The day we were going down to the NCHLEP conference in Fort Lauderdale, there was talk circulating of a 13½-percent prime rate. This was on the front page of the Wall Street Journal. During the last sale of Treasury bills, the interest rate was down. Whether this is significant or not, nobody knows. This is a market so volatile, Mr. Chairman, that obviously we would be delighted with the 6 percent. We must face the fact that the money market now is so uncertain that there is not one prognostication in the country that has held up.

If we could correct the problem with the regs and get multiple disbursements we would be able to get the best of the whole situation. Unless we are threatened with a runaway interest market, we would have a fully acceptable program.

Mr. **Ford**. I assume the proposal is coming to us as a way of dealing with the immediate problem, recognizing we will be considering the ultimate disposition.

Ms. **Dickinson**. Six percent certainly beats the tar out of 4 percent and represents a very substantial continuing commitment, which is what I was asking for in my testimony. We need evidence that the Congress takes this program very seriously and recognizes its significance. Public policy cannot be made by default, and that is what you would be doing if you did not raise the ceiling. I am delighted with this, of course, and Mr. Biaggi must be as well.

Mr. **Ford**. Thank you.

Mr. Simon.

Mr. **Simon**. Thank you, Mr. Chairman.

First of all, it is good to have someone from Illinois with us here.

Ms. Dickinson, I was intrigued on page 11 of your testimony with the idea of the establishment of national lenders of last resort.

I have two questions. No. 1, how would this work administratively, and, No. 2, how would it work in Carbondale, Ill., New York City, Detroit, Mich.? Who needs that loan?

Ms. DICKINSON. As I said in my testimony, we have some precedent in the HEAL program and we would be delighted to work out further details. We have been overwhelmed by investment banking houses looking for State agencies to put out issues of securities, State bonds or agency bonds. At the recent NCHELP Conference we met representatives from a large New York City bank who are interested in doing just this, being a lender of last resort. The bank has made a substantial commitment in a building in Rochester just to process student loans.

Mr. SIMON. In the case of HEAL you have a very significant program.

Ms. DICKINSON. If we have the development of the guaranteed student loan agencies, which I am looking forward to and which is a reaffirmation by the Congress to keep this program alive and well, the program can be financed—as we are demonstrating in New York—and it can be financed from the administrative cost allowance. It is all in the law. We need affirmation from you and we need you to jolt the Office of Education into making it clear that this is the intent of the law and that they are expected to abide by the law.

Mr. SIMON. Thank you, Mr. Chairman. I have no further questions.

Mr. FORD. Mr. Peyser.

Mr. PEYSER. Thank you. I have two questions. One, I noticed in most of the testimony, comparatively little has been said about one of the things which does concern the Congress, and that is the default rate and the ability of all organizations in their collection on this default rate. I wonder if you would briefly like to comment on that because I see very little, or have seen very little in your testimony relating to this particular problem.

Ms. WENNERDAHL. Gladly. However, I must confess that once again you have caught the agencies with their data down.

A strange thing has happened in the last 3 or 4 months. The Office of Education has switched the calculation for determining default rates. We went into considerable discussion with Congress prior to the 1976 amendments of State default rates versus the Federal rates, and the State rates averaged about one-half of the Federal rate. You heard discussion from Secretary Califano on March 20 about HEW having the Federal rate down to 10 percent. I would suggest for your reading, the testimony given by the financial administrators yesterday. They explained how some of that reduction was brought about. Quite frankly, there is a difference of definition as to what is a default, and a lot of former defaults that have made only one payment in the last 4 months have been reclassified as current by HEW.

Most of our State guarantee agencies have their delinquency statistics based upon contractual delinquency. Under the new OE rules, if a student made one payment 4 months ago, he is considered up to date. A lot of us have had to resort to sampling, trying to come up with comparable data.

My sampling shows the Illinois rate about 4½ percent compared to the Federal's 10 percent. I think Pennsylvania is at something like 2 percent.

Mr. **Peyser**. You mean under the new way of counting defaults, is that what you are speaking of now?

Ms. **Wennerdahl**. Yes.

Mr. **Peyser**. I do not think the Congress is going to look at the percent figure as being very indicative. They will look at the total dollar figure of loans in default. It seems to me one of the critical issues we have to do is to address the whole default program as to what is being done. What you are suggesting is that HEW is just using a little sleight of hand, and you change your default ratio by saying what is default and what is not. I do not think that will convince too many people. But what will convince people are the programs, efforts, and results that will be under way dealing with the default question.

Ms. **Wennerdahl**. I think Ms. Dickinson put her finger on one answer a few minutes ago. Another answer is the type of service, type of training, and oversight which, at a local level, you can give your lenders. Second, preclaim assistance to help avert a loan from going into default. Eileen mentioned that about 50 percent of the claims they get returned to the lenders on a paying basis. That has been our experience also in my State and in the case of several others I have talked to.

I do not think you can do much more than establish the best close working relationship with your lenders and also the most vigorous preclaim effort you can implement. It will show in our default rates.

Ms. **Dickinson**. If I can come down to a more specific level. Recently in New York, we put together figures for the independent colleges and schools represented on the board of trustees of the Commission in Independent Colleges and Universities. I was fascinated to see schools like Fordham University have reporting in 1977–78 one-half the defaults it had had the previous year, and this was general throughout the list of independent universities.

It would be foolish for us to overlook the fact, Mr. Peyser, that in 1974, 1975, and 1976, we weathered the worst recession since the 1930's. It had a dreadful impact on different parts of the country. In addition, we have had major demographic changes which have put thousands of holders of degrees in education on the streets until they get their balance because there are not the preschoolers or first graders to teach. These conditions have obviously affected the default situation.

Mr. **Peyser**. I hear what you are saying, and I will not pursue this point any further. One of the reasons for the change at Fordham and others is that for the first time they are doing something about collection. I am talking about the total picture, the institutions were doing nothing.

Ms. **Dickinson**. I think that is fairly true. Since then, however, everybody has climbed on their backs, and they have responded positively.

Mr. **Peyser**. One other question I have, this deals with the banks, and I often have a hard time having sympathy with banks on issues of this nature.

When a bank makes a student loan, is my understanding correct that they can in effect lay off that whole student loan with Sallie Mae? Suppose a bank made $1 million dollars in student loans, then they can pass that $1 million on to Sallie Mae and borrow back 80 percent of that money from Sallie Mae. Is that correct, can that be done?

Ms. **Wennerdahl**. I want to say first, there will be lenders testifying later who can be more precise, and Sallie Mae will testify next week.

Mr. **Peyser**. If what I say is true, then using that $1 million analogy, they can give that to Sallie Mae and borrow back $200,000, there is still a guaranteed 12 percent on their original loan and now they have $800,000 more they can put out under student loans, is that correct?

Ms. **Wennerdahl**. First of all, you have to remember that the $800,000 they are borrowing from Sallie Mae, they are borrowing at generally, at Treasury bills plus 1 percent. They are receiving a yield of Treasury bills plus 3½. Remember that this is not a sale to Sallie Mae. Lenders still keep title to the loan and have full servicing responsibilities for the loan, so all of their costs have to come out of that 2½ percent difference. If they get caught in the crunch, I just explained earlier, they will not even make their costs. It is not without risks.

Mr. **Peyser**. I would defer that question to the lenders, as you indicate, because my feeling is that the student loans from some of the banks that I have discussed are highly profitable to the banks and they are not about to walk away from it. I do want to expose that and I will defer to the lender.

Ms. **Dickinson**. In our default rate we carry every piece of paper that has gone sour since 1978. There isn't a bank reporting anything earlier than last year. We never let defaulted accounts die. We are after them and we will be after them increasingly with collection efforts. But the 12-percent default rate, the honest old-fashioned, before-they-changed-the-rules rate, goes back to 1958. And as I say, it is hardly comparable with National Cities, consumer loan defaults on mobile homes, because default statistics for those loans are not cumulative. Our bookkeeping discriminates against us because we continue old defaults on the books until the debt is repaid.

Mr. **Peyser**. Thank you, Mr. Chairman.

Mr. **Ford**. Apropos of Mr. Peyser's questions, the excerpt from the Inspector General's annual report for January 1, 1978, through December 31, chapter 7, running from pages 112 through 129, deals in specifics with the question of default rates in the loan program and offers both a critique and a summary of what the Office of Education alleges they are doing in response to this criticism. Without objection, we will put that in the record with Mr. Peyser's questions.

[The information referred to follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF INSPECTOR GENERAL

ANNUAL REPORT

JANUARY 1, 1978 - DECEMBER 31, 1978

MADE PURSUANT TO SECTION 24(a) OF
PUBLIC LAW 94-505

March 31, 1979

CHAPTER VII

INITIATIVES TO ATTACK FRAUD, ABUSE, AND ERROR IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS

Prior to the establishment of the Office of Inspector General in April 1977, many problems began to surface involving the management of the Student Financial Assistance programs which involve loans and grants totaling about $6.4 billion in FY 1979, and resulting in over 5-1/2 million awards to students. Engaged in these activities are an estimated 8,000 educational institutions -- ranging from the major universities to several thousand vocational and technical schools offering short courses. In addition, there are approximately 14,000 lending institutions participating in the Guaranteed Student Loan Program.

The OIG has had a major involvement in overseeing the Student Financial Assistance programs. They constitute the second largest source of criminal cases for the Office of Investigations, and represent a large continuing workload for the Audit Agency. Both of these activities will be described in greater depth in this Chapter.

The transformation in the management effectiveness of the Student Financial Assistance programs during the past two years has been comprehensive and cost-effective, although far more remains to be done. Secretary Califano's testimony of July 27, 1978, before the House Subcommittee on Intergovernmental Relations and Human Resources, recounted the problems encountered and the actions taken up to that point. It is the purpose of this Chapter to deal only briefly with an update that will look at past efforts and sketch the opportunities which lie ahead. To facilitate a reading of this summary, we will deal with the following principal areas:

--The importance of the reorganization which created a Bureau of Student Financial Assistance (BSFA).

--Expanded and accelerated mechanisms to monitor fraud, abuse, and error by institutions.

--A new validation process which has been the principal source of improvement and savings in the Basic Educational Opportunity Grant (BEOG) Program.

--A containment and reduction in defaulted loans under the Guaranteed Student Loan (GSL) Program. A similar effort is being launched against the defaulted loans under the National Direct Student Loan Program.

--A tuition refund policy for the student financial assistance program is being reviewed by the Department. It is expected that a resolution to the problem will be obtained in the near future.

A. Reorganization Was the Essential First Step

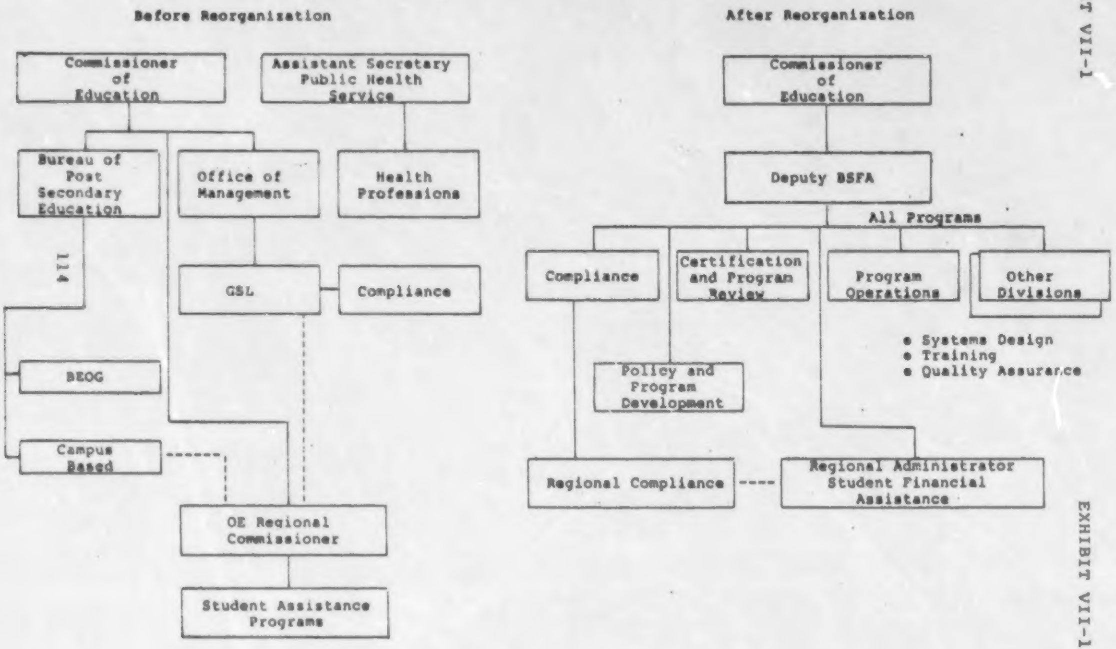
Four independent divisions for student financial aid existed in January 1977. None had a skilled management executive conversant with large-scale loan and grant systems, which are more akin to commercial banking practice than the normal Federal processes. Exhibit VII-1 illustrates the former organizational structure and shows the arrangement which was instituted in September 1977, and has been progressively improved since then. The significant elements of this structure are as follows:

1. One Deputy Commissioner now has full "command authority" over all the programs at headquarters and through his own direct regional organization. Previously the headquarters functions were split among separate divisions, and the ten regions were similarly disjointed with divided responsibility for the programs in the regional offices. The headquarters divisions had only a "dotted-line" relationship to this morass. This was indeed an impossible arrangement.

2. The new structure makes it possible to integrate the oversight of all of the programs, so that there is one division responsible for policy and program development; another for quality assurance; a third for

EXHIBIT VII-1

ORGANIZATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS



Before Reorganization

After Reorganization

Commissioner of Education
Assistant Secretary Public Health Service
Bureau of Post Secondary Education
Office of Management
Health Professions
GSL
Compliance
BEOG
Campus Based
OE Regional Commissioner
Student Assistance Programs
Commissioner of Education
Deputy BSFA
All Programs
Compliance
Certification and Program Review
Program Operations
Other Divisions
• Systems Design
• Training
• Quality Assurance
Policy and Program Development
Regional Compliance
Regional Administrator Student Financial Assistance

EXHIBIT VII-1

operations; a fourth for certification and program review; and a fifth for compliance -- which is the principal interface with the IG's Office of Investigations (OI). The Compliance Division serves as the BSFA base of operations for monitoring and reducing fraud and abuse in its programs, and it assists OI where appropriate in the conduct of criminal investigations. OI/BSFA Compliance working relationships were formalized through a Memorandum of Understanding entered into by the OIG and BSFA in September 1977. We are currently engaged in an examination with the Director of Compliance of our working relationships in order to assure the most effective utilization of resources.

B. Accelerated and Expanded Mechanisms to Reduce Fraud, Abuse, and Error in the Management of Student Financial Assistance Programs

The scope and attention now being given to all programs in all types of institutions is illustrated in Exhibit VII-2 on the following page:

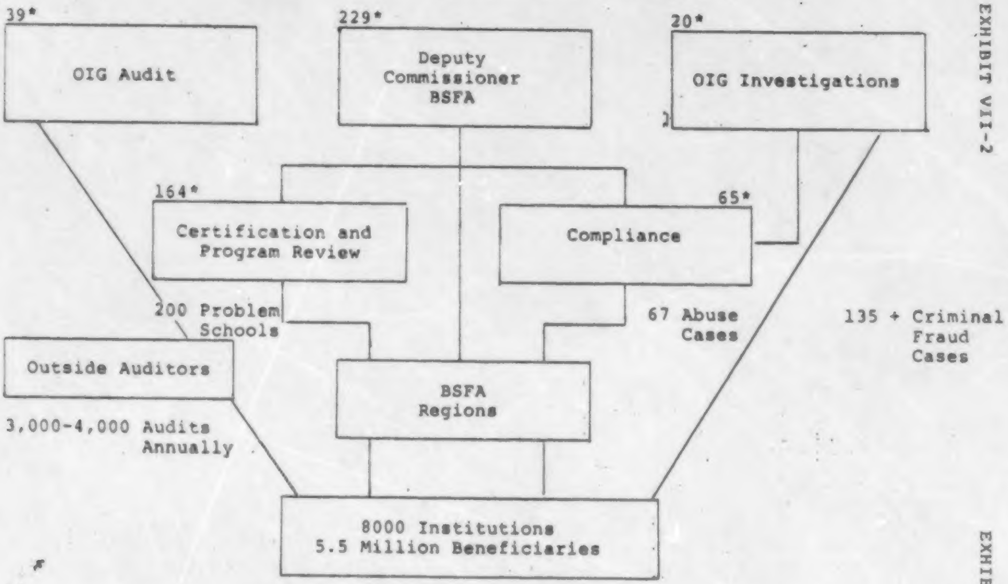
--At the heart of the new approach is the improved oversight provided by the Deputy Commissioner and his national staff. This consists first of a Division of Certification and Program Review which conducts regular inspections of problem schools among other duties. As a result of this Division's activities, institutional liabilities of nearly $9 million have been established to date. Out of their findings flow matters for attention by the HEW Audit Agency, BSFA's Division of Compliance, or, in the case of criminal fraud, by the OIG's Office of Investigations. Further, this effort is being bolstered by a nationwide training program designed to upgrade the performance of financial aid officers at the institutions.

1. Division of Compliance

--Next, the Division of Compliance, BSFA, has come into its own in Calendar Year 1978 with

EXHIBIT VII-2

MECHANISMS TO REDUCE FRAUD ABUSE, AND ERROR IN STUDENT FINANCIAL ASSISTANCE PROGRAMS


39*
OIG Audit
229*
Deputy Commissioner BSFA
20*
OIG Investigations
164*
Certification and Program Review
65*
Compliance
200 Problem Schools
67 Abuse Cases
135 + Criminal Fraud Cases
Outside Auditors
3,000-4,000 Audits Annually
BSFA Regions
8000 Institutions
5.5 Million Beneficiaries

*Professional Staff

EXHIBIT VII-2

the establishment of a nationwide staff of 51 investigators and 14 technicians skilled in civil fraud and administrative sanctions. An account of the work of this Division -- whose caseload has more than tripled in its first year -- is contained in Appendix L. This appendix also reviews the highlights of 17 illustrative cases. The complexity of these matters is revealed by the following example of a current Compliance review:

--A nationwide chain of schools which trains students in computer technology was found to have made false certifications, withheld funds due to students by the lenders, disbursed loans to students not in attendance, and charged excessive interest in billings to the Federal Government. The school was forced to immediately repay certain interest and tuition refunds exceeding $1 million, and its eligibility was terminated to prevent future damages. The matter continues to be an open case under investigation by OI and the FBI.

2. OIG Audit Agency

--The Audit Agency processed 983 audit reports in 1978 on institutions administering student financial aid programs. Sixty percent of the reports disclosed one or more deficiencies -- ranging from minor internal control weaknesses or problems of poor financial practice, to major areas of non-compliance with Federal regulations.

--The student financial assistance programs now require an independent audit biennially of each educational institution participating in their programs. The HEW Audit Agency is preparing standardized guides for the conduct of such audits by independent auditors, subject to quality control reviews by HEW's Audit staff. Audit Guides have been issued for the BEOG and campus-based programs, (NDSL, SEOG, and CWS), and one is in development for the GSL program.

--A training program has been developed in cooperation with the American Institute of Certified Public Accountants. Three seminars were held in October and November of 1978 and six are planned for 1979.

--Examples of audits completed in 1978 are cited in Appendix M. These have become the basis in several cases for action under the new "limit, suspend, and terminate" procedures authorized by the 1976 amendments.

3. OIG Office of Investigations

--An analysis of 103 cases under criminal investigation is presented in Appendix N. One of the most interesting areas is proprietary schools where the work in process involves 29 cases with the following problems:

--Suspected misappropriation and misuse of student financial aid funds appear to exist in one-third of these cases.

--Embezzlement accounts for an additional one-third, including evidence of bribery and kickbacks to school personnel, school officials, and collection agencies.

--The remainder of the cases involve a variety of schemes to defraud and misrepresent. The most typical are fraudulent applications with forged student names, or cases where students are induced to file false applications.

Altogether 34 convictions in the Student Financial Aid area resulting from the work of the Office of Investigations and U. S. Attorneys were obtained in 1978. A brief synopsis of these appears in Appendix C.

4. Industry Studies

Another oversight initiative being tested by the Inspector General is a series of industry studies designed to examine specific types of schools and to develop criteria for detection of problems needing attention. The initial effort is directed at proprietary schools, with the focus on some 900 in the cosmetology field. This initiative, known as the "Beauty School Project," holds great promise as a technique that can be progressively extended to a number of categories of schools in the future. A description of the approach being used, and early results, appears as Appendix O. Three principal techniques are being employed:

--Computer analysis of the BEOG applications submitted by students for a 3-year period to identify deviations from norms, which indicate possible fraud and abuse, suggesting that applications are being prepared by the school itself and not by the applicant.

--Questioning students to verify whether they received the grant award and under what conditions.

--Intensive audits of selected institutions pinpointed by the foregoing factors.

5. Future Oversight Initiatives

The Inspector General plans, during the coming year, to give special attention to assisting BSFA in planning additional industry studies of the type described above.

At longer range, we expect to continue review of the design of management information systems for all BSFA programs and to achieve the benefits of integration where possible.

C. The Success of Efforts to Validate Applications in the Basic Educational Opportunity Grant Program (BEOG)

The BEOG program is the largest of the financial assistance programs with awards in FY 1979 to 2.7 million students of up to $1,600 each. As a result of initiatives undertaken by the Deputy Commissioner, in the 1978-1979 academic year, some $300 million is being saved.

This achievement is a result of two new techniques:

--The first is a computer edit check applied to the applications at the time of receipt to test for completeness or inconsistent information. About 40 percent of the applications in 1978-1979 were returned to students for additional information. Most of the applications were returned due to problems with income, taxes paid, missing social security numbers, or other data critical to making an award.

Of the 1.4 million applications returned to students so far approximately 500,000 have not been resubmitted for correction. Applications may not be resubmitted for a variety of reasons not related to fraud and abuse. In this context, OE is continuing to simplify and improve the application form and procedures to reduce the risk of excluding otherwise eligible applicants.

--The second technique is to select a large number of applicants (who submitted new information which drastically changed their eligibility, or who submitted inconsistent data) and to return the application to the student for a 100 percent validation review by the institution of the facts presented, including a check of income tax return. This year, approximately 120,000 applications have been flagged for the validation review.

In accordance with the plans discussed by Secretary Califano in his testimony last July, several other "front end" validation checks are being incorporated, as fully as practical, in this year's processing cycle. It must be stressed that this will be the first year that such validation checks will have been attempted and we anticipate varying degrees of success. They are planned to include the following:

- A computer cross check of beneficiaries of student assistance under Social Security with BEOG applicants to assure that SSA benefits are counted in determining the BEOG award. A test run in the summer of 1978 indicated the possibility that as many as 113,833 applicants had failed to report their SSA student benefits.

- A computer cross check of BEOG applicants with students receiving Veterans Administration (VA) educational benefits to assure that VA benefits are included in determing the BEOG award. A test run, made last summer, revealed the possibility of some 19,000 cases where VA benefits had not been reported.

- A third computer match which the Inspector General feels should be attempted (even though its cost-benefit has not been established) is between BEOG applicants and AFDC rolls. A test run last summer revealed the possibility of 19,704 applicants not reporting such benefits. The Inspector General feels that this check should be made so that information can be furnished both to the States and to the Office of Education to assist them in making their respective decisions on the size of the grant entitlement.

Looking ahead it is felt that important lessons can be learned in the coming year, particularly in relation to the most effective ways of conducting validation checks including the use of IRS data for this purpose.

D. Reduction in Defaulted Student Loans

Two student loan programs whose default problems have tested the mettle of the Department include: the Guaranteed Student Loan Program* and the

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*The Guaranteed Student Loan program consists of (1) the Federal Insured Student Loan Program (FISL) totally administered by the Federal Government and (2) the State Guaranty Agency program, where the Federal Government places an 80 to 100 percent guaranty behind the State insured loans.

National Direct Student Loan Program (NDSL). A major management break-through has been achieved with the containment of the defaults (number and rate) in the federally insured program.

With this effort well in hand, the Department is now beginning to be able to apply the lessons learned against the default problems in NDSL.

1. Federal Insured Student Loan Program

--The FISL program had, in 1977, accumulated defaulted loans involving 300,000 students and totaling more than $300 million. This number increased steadily and reached a peak of 393,000 students owing $400 million in March 1978. At that time, the program had a default rate of approximately 13 percent. As a result of initiatives begun by the new Deputy Commissioner, the backlog was contained for the first time in the 10-year history of the program, and by September 1978, it had dropped to 357,000 and by February 1, 1979, to 336,000. Of these accounts, about 33,000 are now under investigation or are in litigation, resulting in a "hold" being placed on collection actions until the cases are resolved.

The improvement in the FISL program is attributed to a variety of special initiatives. The Inspector General's Office has collaborated in several of them and will continue to do so.

--Establishment of a computerized billing system. Prior to November 1977, virtually no student who had defaulted had been regularly billed by the Federal Government. Now a regular billing procedure is in operation.

--An agreement with IRS to obtain current defaulters' addresses.

--The institution of a systematic cross check of the default file with Federal active duty civilian and military employees. This check conducted by the Inspector General, revealed 16,500 employees in default, with indebtedness (including principal and interest) of $15.8 million.

An additional 317 HEW employees had been identified previously in a pilot test, and all of these accounts for individuals still working in the Department have been resolved, or have been referred for litigation. As to the remaining Federal civilian employees -- 6,600 in number -- excellent progress is being made as shown in Exhibit VII-3. This is due in large measure to the cooperation received from the Federal agency personnel divisions.

The remaining 9,930 military employees were only identified in November 1978 and the Defense Department is cooperating with HEW in locating these individuals at their work addresses.

--Greatly accelerated referral of civil cases to U. S. Attorneys. In FY 1978 we referred 3,000 civil cases compared to a total in the preceding 5 years of only 500.

--A variety of additional initiatives are being planned. Contracts have been awarded in two regions as an experiment to determine whether private agencies can be effective in collecting defaulted loans. In the meantime, as of February 1979, 684 temporary and part-time employees had been hired to launch a massive collection effort -- an additional 519 are to be hired in the months ahead. This represents a major increase of collection employees over the 100 some collectors that were in place in 1977.

Work has also begun with selected State Guaranty Agencies to develop match projects

EXHIBIT VII-3

STATISTICS OF GUARANTEED STUDENT LOAN FEDERAL DEFAULTERS

	Secretary Testimony	Period Ending 12-24-78	Period Ending 12-31-78	Period Ending 1-7-79	Period Ending 1-14-79	Period Ending 1-21-79	Period Ending 1-28-79	Period Ending 2-3-79	Period Ending 2-10-79
Paid-in-Full	172	452	457	462	480	517	528	543	545
Death, Disability and Bankruptcy	69	102	103	104	106	106	108	110	112
Write Off	181	302	303	305	308	312	311	311	310
In Repayment/Promise To Pay	540	2,815	2,823	2,835	2,842	2,859	2,875	2,885	2,890
Litigation	32	67	68	68	69	68	69	69	69
Problem School Related	0	0	0	0	0	0	0	0	0
Data Problems	0	0	0	0	0	0	0	0	0
No Longer Government	0	1,531	1,588	1,603	1,638	1,638	1,638	1,638	1,638
Losses/Never Paid	5,606	1,331	1,258	1,223	1,157	1,100	1,076	1,044	1,036
Total Federal Defaulters	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600

in order to expose Federal employee defaulters. A contract has been made to acquire credit reports on student loan defaulters (prior to a referral to litigation), and to provide current address information on defaulters.

Among other actions being planned are:

--An assessment of the feasibility of matching State Government payrolls against the default files.

--Access to employee address data for defaulters from Social Security Administration records to assist in locating defaulters.

--Legislative authorization for releasing IRS address data to State Guaranty Agencies prior to their submitting the case to BSFA for reinsurance payments.

--Consider using credit bureaus for skiptracing of defaulters, as recently proposed by the General Accounting Office.

--Consider furnishing default data to IRS on accounts written off as uncollectibles, so as to permit the taxation of these funds as income.

2. National Direct Student Loan Program

--NDSL has been operating at an average default rate of almost 20 percent -- equal to 830,000 students with unpaid principal of nearly $700 million as of June 30, 1978. This program is administered by the institutions themselves, but with a 90 percent capital contribution by the Federal Government. The idea is to create a revolving fund out of which future loans can be made to needy students at a very low interest rate.

In order to reduce the default problem in NDSL, BSFA is encouraging institutions to turn over their defaulted NDSL loans for Federal handling. We are working with the Attorneys General for individual states (where State law may prohibit a school from turning over its defaulted notes to BSFA for collection) to seek a resolution to the problem. We are also streamlining the paperwork required for the assigning of the notes to BSFA by the schools. This is expected to increase collections in 1980 by $94 million. In addition, cash on hand in these institutions is being reduced to a 30-day level. This will return to Federal control some $10 million in otherwise idle funds.

BSFA has established a savings target through the increased recovery of loans in default in the amount of $70 million in 1980 for the FISL program, and $94 million for the NDSL program -- a total of $164 million -- in addition to the savings cited earlier for the BEOG validation.

E. The Need for Rational Refund Policies

A problem was encountered in 1978 with preserving a policy of requiring institutions participating in the GSL programs to have a "fair and equitable" refund policy for students who drop out or who are unable to complete their courses. The Inspector General wrote the Secretary urging that he reinstate and reaffirm this policy for GSL. Backing up his recommendation was the finding of the HEW Audit Agency, based on a review of 25 vocational and technical schools, which concluded:

> "At 16 of the 25 schools over $30 million of refunds to students, GSL lenders, or OE program accounts were late, incorrectly computed, or not made at all. As a result, the GSL program was billed for excessive interest of $10.3 million and its contingent liability for defaults was significantly overstated."

Further evidence of the need for a clear policy has been found in a study released by GAO on January 17, 1979 titled: "What Assurance Does

Office of Education's Eligibility Process Provide?". Substantial differences in refund policies were cited for a number of schools visited by GAO. They found that some schools provided no refund after the first week while others gave a substantial refund well into the term. To illustrate, the following compares the practices of four schools in granting refunds for a hypothetical student who paid $1,000 in tuition and withdrew after completing three weeks of class.

School	Applicable Refund Provision	Amount of Refund
A	No refund due after 3 weeks	$ 0
B	No refund beyond first week	0
C	70 percent refund allowed	700
D	School retain 25 percent of tuition plus $100 withdrawal fee	650

The Secretary accepted our recommendation to preserve the GSL refund policy, and on July 19, 1978, HEW published a regulation requiring continuance of the "fair and equitable" refund policy in the GSL program.

Two other developments in the refund policy area should be noted. On December 28, 1978, the Federal Trade Commission published a rule, effective January 1, 1980, that requires proprietary vocational and home study schools to provide pro rata refunds to students who withdraw from their courses. Recently, the American Council on Education has submitted draft rules to the Department for comment, enunciating a much more logical refund policy than that which has existed for universities.

These two developments are very encouraging, and we will continue to work closely with the Office of Education to sustain the principle of a fair and equitable refund policy for students forced to an early withdrawal or unable to complete their studies.

F. Summary of Conclusions and Recommendations

Student Financial Assistance programs rank among the most difficult in the Department from the viewpoint of detecting and preventing fraud, abuse and error -- and fostering economy and efficiency. The record of management improvements and savings which has been compiled in FY 1978 is excellent. The goal of $394 million in savings for FY 1980 is praiseworthy.

Several matters warrant Congressional attention:

1. The integrated Bureau of Student Financial Assistance should be retained intact if a Department of Education is formed, perhaps under the direction of specifically qualified leadership.
2. Fair and equitable refund policy requirements should be established and sustained for all of the Student Financial Assistance programs. Some variation in the specific application of this policy as between vocational and technical schools on the one hand, versus the major universities on the other, is probably justified.
3. It is recommended that legislative approval be given to providing IRS address data to State guaranty agencies prior to their submitting defaulted cases to BSFA for reinsurance payments.
4. It is recommended that the Family Educational Rights and Privacy Act (FERPA) be amended to provide that in certain cases prior notice to a student need not be given before a school complies with subpoena for student records. *The present act leaves in doubt the question of whether a subpoena of the Inspector General or the U. S. Attorney can be honored by a school without either obtaining the consent of the student, or unless

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*This is known as The Buckley Amendment.

the educational institution makes a reasonable attempt to notify the student prior to disclosure. Such prior notification could seriously interfere with a criminal investigation.

5. The authority to refer default information to private credit bureaus requires clarification. The General Accounting Office has recommended the referral of student loan information, both for new loans and defaulted loans, to the private credit bureau network. We are now endeavoring to ascertain whether this is consistent with the Privacy Act and, if not, to recommend legislation to afford us this authority. We understand that the General Counsel at GAO feels that no legislative amendment is needed.

6. A continuing problem is the practice of some institutions of retaining excessive Federal cash and improperly using these funds without an imputed interest cost. HEW is now moving to limit NDSL funds on hand to a 30 day requirement. As discussed in Chapter III, we believe that a regulation is desirable to assess an interest charge against any organization which misapplies Federal funds. We believe that the specific instances which have been encountered among institutions in the Student Financial Aid programs confirm that such a regulation should also cover educational institutions.

7. It is recommended that legislative authorization be provided for use of program funds to defray the cost of obtaining records needed for civil and criminal investigations consistent with the provisions of Title XI, Right to Financial Privacy Act of 1978.

Mr. **Ford**. Mr. Buchanan.

Mr. **Buchanan**. Thank you, Mr. Chairman.

You made a suggestion about converting the NDSL program now a campus based program into a state operating program. I wish you would elaborate.

Mr. **Laird**. That is a proposal, Mr. Chairman, from the SHEEO organization, the national organization. It is also one which we believe would work quite well in a State like Minnesota where our State direct student loan program is organized so that the direct contact with the student is also made at the institutional level. To consolidate those two programs in a State like ours would result in no direct change in the relationship for the student borrower. It would result in no additional work for the institutional financial aid officers.

It would result in a simplification of the procedures those offices use in proceeding to find a capable loan for those particular students. The changes that would occur would be the changes in the financial and the Federal and State laws to accommodate this simplification. It would not be a direct change for the borrower.

The institutional aid officers serve as direct agents in the State of Minnesota for the purpose of the direct student loan program.

Mr. **Ford**. Is that unique to Minnesota or is that fairly common?

Mr. **Laird**. Mr. Chairman, I do not think it is in anyway common throughout the country, but I do not think it is unique either.

Ms. **Wennerdahl**. There are at least a six to eight States that raise money by a similar means and lend it through their educational institution. It is a State direct program that complements, or supplements the national direct program.

Mr. **Ford**. Mr. Laird, in your testimony you stated that there is no problem of access in Minnesota. You pointed out that in 1977 you sold some $37 million of bonds and some $38¼ million in 1978. Do you have a fail-safe legal system that guarantees that everyone can get a loan, or is it a statement of what the current circumstances are because of the recent sale of these two bond issues?

Mr. **Laird**. Mr. Chairman, the governing policy and state statute which enabled the development of this program is based upon no discrimination among borrowers. As long as the student applicants meet the eligiblity requirements in Federal law, and as long as the institution that they are attending is willing to meet its obligations as our agent, we are willing to make loans to bona fide students regardless of their economic or social stature.

We have no, as you stated, fail-safe means of financing the program in the event that the market were not to buy our bonds. But certainly our experience of the last 4 or 5 years is very encouraging to us about the acceptability of bonds such as ours in the marketplace.

Mr. **Ford**. Your program is an entitlement program and the duty falls on whoever administers it to raise the money to meet the entitlement as demand for loans dictates the need; is that it?

Mr. **Laird**. If I understand the way you are using entitlement, I think it is correct, Mr. Chairman.

Mr. **Ford**. Does the amount of money that you raise result from the applications that are made, or do you have a predetermined amount of moneys available that you see in the program?

Mr. **Laird**. I understand now. The amount of money we raise through sale of revenue bonds is based upon our projection of need in order to meet applicant requests for money during an academic year.

Mr. **Ford**. So although you are estimating the advance, the amount is based on your assumptions with respect to what the demand will be?

Mr. **Laird**. Yes, sir. If it is necessary to supplement those funds, we merely go back into the market earlier than we have projected. We operate as well with a bonded indebtedness ceiling by the State, and it is their express purpose through that ceiling to insure that they have an opportunity to periodically review the policy and performance of the program. There has been no difficulty in expanding that ceiling whenever we have needed to do so.

Mr. **Ford**. You have $37 million in 1977, another $38¼ million in 1978. Are you contemplating another?

Mr. **Laird**. Yes, sir. We contemplate selling another $100 million in August, and that is designed to accommodate the needs of the coming 2 years, $40 million for the next year and $45 million for the second year; and that plus reserves comes up to about $100 million. Mr. Ford. Thank you very much. It has been a very interesting panel and we appreciate very much your contribution.

Mr. **Ford**. Mr. John Wickert, president, Dauphin Deposit Bank & Trust Co., Harrisburg, Pa., American Banking Association, accompanied by Gregory Lancaster, vice president, Security Pacific National Bank, Los Angeles, Calif. Without objection, the prepared statement on behalf of the American Bankers Association will be included in full at this point in the record, and you may proceed to add to it, comment on it.

[Prepared statement of John Wickert follows:]

STATEMENT
OF THE
AMERICAN BANKERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
OF THE
COMMITTEE ON EDUCATION & LABOR
U.S. HOUSE OF REPRESENTATIVES

May 31, 1979

Mr. Chairman and members of the Subcommittee, I am John D. Wickert, President of the Dauphin Deposit Bank and Trust Company, Harrisburg, Pennsylvania and a member of ABA's Instalment Lending Division Executive Advisory Council. In addition, I am a member of the board of directors of the Pennsylvania State Higher Education Assistance Authority. Accompanying me today is Mr. Gregory Lancaster, Vice President of Security Pacific, National Bank, Los Angeles, California, and manager of his bank"s student lending program, and a former consultant to the Department of Health, Education and Welfare, Office of Education. We appreciate this opportunity to present our views on behalf of the American Bankers Association.

If I may, Mr. Chairman, I would like to cover several points in this morning's testimony. I would particularly like to respond to several points raised by Secretary Califano, in his testimony before the Subcommittee on March 20, 1979. In addition, I believe it would be advantageous to discuss some of the specific merits as well as problems inherent to the present program and end with my own observations of the GSL program as it operates under the auspices of the State Guarantee Agency. If the Chairman will permit I would then like to turn the dicussion over to Greg Lancaster who can cover the difficulties of operating directly under the Federally insured program.

Throughout the statement presented by Secretary Califano, he repeatedly referred to banks as if they were the only eligible lenders in this program.

I submit that the commercial banks of this country have been the largest single lenders in the program, approximately 60% of all loans have been made by commercial banks, 60% of some $14 billion as of September 30, 1978 the latest figures available to us. Hopefully, the Office of Education realizes that other eligible lenders include, savings and loans, credit unions, mutual savings banks, pension funds and insurance companies. Excluding insurance companies, and pension funds there are approximately 42,000 financial institutions in this country (banks, savings and loans, mutual savings banks, and credit unions). According to the March 20th statement there are 8,500 active lenders in the Guaranteed Student Loan Program, 8,500 out of almost 42,000 that in and of itself may speak for the complexities of the program. Perhaps with some simplification and inducements the other 33,500 lenders would be willing to participate in the program.

A major point stressed by Secretary Califano that certainly requires clarification at the very least relates to the so-called windfall profits available to lending institutions involved in warehousing activities with the Student Loan Marketing Association.

On page 25 of the Secretary's statement he asserts that a lender can leverage $100,000 of its own capital into $500,000 in student loans and borrow money from Sally Mae at 4% less than it charges for those student loans, and earn as much as $24,000 per year on $100,000 investment. I believe if this were possible you would have the other 33,500 lenders in the program, and in fact, closing their doors to any other type of lending. Let's hope the same people who worked out this scenario, were not the same ones who gave us the reduced default figures on student loans.

The questions raised about loan availability are of great concern to anybody who has been actively involved in this program. Many lenders are unwilling to lend to first year students because past experience has shown that the default rates are greatest among this class of students. In addition because of the problems associated with some vocational schools and home study schools in the mid-seventies, lenders are extremely reluctant to become involved in these programs. It is also true that many lenders prefer to deal with regular customers as opposed to non-customers. I think this is a natural phenomena. Members of this Subcommittee, I am sure would prefer to deal first with their own constituents. Lenders are no different in this respect. We would hope that students from poor families would not have to avail themselves of loans, but would have grants and scholarships available to meet their educational needs.

I would venture to say that most students or their families have dealings with some type of financial institution, and if all the eligible lenders participated to some extent in this program the needs for student loans could be met.

The complexity in this program is unquestioned and may be one of the primary reasons why so few lenders are willing to participate. As an example, I believe it is worth noting that the Department of HEW has not yet promulgated the regulations required under the 1972 and 1976 education amendments

Turning now to our preceptions respecting the overall program ... There are a number of factors, that we believe have contributed greatly to the lack of nationwide support including the numerous statutory changes that are evidenced by over 11 separate laws modifying the program in some manner since the Higher Education Act was originally enacted in 1965. Certainly, so many modifications over a relatively short period of time have caused instability effecting all parties to the program .. the lenders, universities, students, state agencies, Sallie Mae, and even the Office of Education.

The major difficulties with the present program have resulted from such inequities as insufficient rates of return on capital invested; excessive red tape and paper work, high rates of delinquencies and defaults, lack of preclaim assistance; lack of liquidity; and, delays in claim payments.

We would like to spell out in particular some of the problems we cited above:

Insufficient Rate of Return: Since student loans are long-term debt, the funds would be derived from savings and time deposits even in the case of commercial banks. In addition to the payment of interest and the cost of administering such deposits, it is necessary to add the relatively high cost of paying for the great amount of paperwork and red-tape of notifying and billing the Office of Education and generally servicing student loans during in-school, grace, and pay-back periods. Under existing loan and special allowance rates, guaranteed student loans are not profitable.

The total cost to the average bank of administering the student loan program must certainly be at least 11 percent due to the following factors: an increasing dependence by banks on time money, higher interest rates on consumer-type CDs, great increases in rates on large CDs, if, cost of money and salaries and other overhead costs continuing to climb.

More importantly, the opportunity cost of placing available funds into higher yielding, relatively riskless investments clearly makes student loans an expensive community service for the average lender.

"Red-Tape/Paperwork": The burden of paperwork begins with the loan approval process. The applicant, and in most cases the parent, is required to complete a lengthy application form, which must be notarized.

After the applicant's school enrollment is certified, the application is approved by the bank and forwarded to the guaranty agency for review and endorsement. After endorsement is received, the bank issues the check to the borrower.

The same procedure must then be followed for each successive request for a student loan. Administering the loan continues to require considerable effort by the lender throughout the in-school and repayment periods, particularly if the borrower becomes delinquent and eventually defaults on the loan.

To add to the confusion, there are inconsistencies in procedure and forms among the state guaranty agencies and in comparison with federal requirements.

Poor communication between lenders, schools, and guaranty agencies magnifies the confusion. Delays along the way compound each other, multiplying the time it takes to process applications, subsidies, and claims payments. Lenders were particularly distressed when claims were being paid four to eight months after the date of submission to the Office of Education. Upon notification of loans from multiple lenders to the same student, the lender is exposed to even more paperwork to insure that the student does not have to make the minimum monthly payment on each loan.

It is no wonder, therefore, that the supply of funds for the student loan program with all the red-tape and paperwork involved is of increasing concern.

Higher Than Acceptable Delinquencies and Defaults: Delinquency and default concerns can be viewed from two perspectives: (1) the additional cost of collection efforts and claims filing added to what is generally felt to be an unprofitable loan, and (2) the reluctance of some lenders to extend loans that jeopardize the traditional lender-borrower relationship.

WHY ARE DELINQUENCY AND DEFAULT RATES SO HIGH? Almost all student loans are extended without consideration of the traditional loan criteria that are applied to other forms of credit. An 18- to 21-year old normally has not compiled a credit record. No standards of repayment capacity can be fairly applied since the repayment is based on future income. No collateral can be offered, and net worth is minimal in most cases.

The mandatory minimum nine-month grace period also serves as a deterrent to timely repayment. Experienced consumer lenders will attest to the importance of the beginning payments in the loan schedule, particularly the first payment. This payment establishes a routine, a habit, which is reinforced with each subsequent payment. With student loans in particular, it establishes a pattern before the borrower incurs further indebtedness to fulfill additional needs and desires. Anything that delays the implementation of this routine can only jeopardize the collection of the first payment and the ones that follow. Many students are eager to begin reducing their obligations immediately, particularly during a period when other obligations may be at their lowest level.

The high proportion of students who fail to complete their education has a significant effect on the collection problem. It is almost analogous to the automobile loan borrower who discovers that he still has 24 payments left on the car he has just wrecked.

Liquidity: One of the early problems associated with the Guaranteed Student Loan Program was the non-liquidity of student loan portfolios. Bankers wishing to make new student loans but finding themselves strapped for funds were unable to liquidate their existing loans. To meet this problem the Administration proposed the establishment of a secondary market facility for student loans in the Education Opportunity Act of 1970.

This provision was enacted in June 1972, and the Student Loan Marketing Association (Sallie Mae) began to operate in May 1973. In the beginning, most of its operations were in the area of warehousing loans whereby funds are advanced to lenders with student loans used as collateral. In the longer run, however, warehousing did not greatly add liquidity to student loans. This is because the law provides that the proceeds of the warehousing loans must be reinvested in new studnet loans within a given time period subject to Sallie Mae regulations. The investment in new student loans must be made whether or not warehousing loans are repaid before the expiration of the reinvestment time limit.

In two of the problem areas we cited, delays in claims payments and preclaim assistance, there has been marked improvement by the Office of Education.

In addition to the problems faced by the lenders, perhaps a more difficult problem is faced by the student borrower, and that is the difficulty at time of meeting their repayment schedule.

Repayment of a student loan can be a burdensome responsibility, particularly in the early stages of the payout period. The income of the average borrower will normally be low in relation to future earning capacity. It is during these early days that most delinquencies and subsequent defaults are likely to occur. An optional graduated repayment schedule agreeable to both the borrower and lender could go a long way toward alleviating this problem.

Many graduates and withdrawees are having difficulties finding employment upon leaving school. These individuals obviously are unable to make loan payments on their own if they are still unemployed when the grace period has expired.

Additionally, loans to one student from multiple lenders could result in a heavier than necessary repayment burden if the student neglects to inform all lenders of the situation. Regulations require that the student pay a minimum of $360 per year. In the case of multiple lenders, the regulations require the lenders to scale down the minimum, when appropriate, so that the student need not pay more than the amount due had the loans been made by one lender. If, however, the student fails to inform the lenders of such a situation, he could be required to make the minimum payment to each of the lenders.

In spite of the concerns we have cited, we still believe the Guaranteed Student Loan Program is the best approach to provide loans for postsecondary education.

Under current economic conditions, there will be a question of loan availability within the next two quarters. Consequently, we commend Mr. Biaggi for introducing H.R. 3554 which hopefully will alleivate this problem and strongly recommend its prompt consideration in order to forestall this possible inequity. In addition, we would like to commend the interest displayed by Mr. Maguire in introducing the Fair Access to Higher Education Act, H.R. 3769. We strongly support his approach of keeping banks and State Guarantee Agencies in place. We also believe that the provisions in his bill for raising the loan limits and graduated repayment deserves consideration.

We also recognize the fact that many other proposals will be forthcoming including the Administration proposals. We would appreciate the opportunity to comment at a later date on the specifics of the Administration's plans.

At this point, Mr. Chairman, I would like to take a few minutes and discuss the GSL as it functions under the auspices of the Pennsylvania Higher Education Assistance Authority.

Then I would like Mr. Lancaster to spend a few minutes discussing the Federal program as it has operated in California.

STATEMENT OF JOHN D. WICKERT, PRESIDENT, DAUPHIN DEPOSIT BANK & TRUST CO., HARRISBURG, PA., APPEARING FOR AMERICAN BANKING ASSOCIATION, ACCOMPANIED BY GREGORY LANCASTER, VICE PRESIDENT, SECURITY PACIFIC NATIONAL BANK, LOS ANGELES, CALIF.

Mr. WICKERT. I will summarize my written statement since you have it available to you.

I have been president of the Dauphin Deposit Bank & Trust Co. for the last 12 years. In addition, I am a member of the board of directors of the Pennsylvania State Higher Education Assistance Authority.

Our bank has been a lender in the student loan program since the inception of the program in Pennsylvania in 1964. I would like to begin by responding to an earlier question about lenders of last resort, or second resort as they are often referred to. Our bank is one of 10 banks designated by the Pennsylvania Higher Education Assistance Authority as a bank for central Pennsylvania that stands ready to make student loans as a lender of last resort. When a student is unable to get a loan and goes to the Higher Education Agency, the agency refers the student to a bank and we take care of those loans.

As I indicated we have been in this program since 1964, and the question that continues to come up is profitability of student loan portfolios. I would hate to give you the answer over the 15-year period because there is not one. Conceivably it is better now, as has been discussed earlier, but we have never lost sight of the responsibility of the bank to provide the funds necessary for the educational process, and not only for the students in the community but for the expanded support through the schools of higher learning in the State of Pennsylvania.

Greg Lancaster will touch on the Federal program. Since I have only worked with the State program, I will restrict my comments to that program.

Throughout the statement presented by Secretary Califano, he repeatedly referred to banks as if they were the only eligible lenders in this program. I submit that the commercial banks of this country have been the largest single lenders in the program, approximately 60 percent of all loans have been made by commercial banks, 60 percent of some $14 billion as of September 30, 1978, the latest figures available to us. Hopefully, the Office of Education realizes that other eligible lenders include savings and loans, credit unions, mutual savings banks, pension funds and insurance companies. Excluding insurance companies and pension funds there are approximately 42,000 financial institutions in this country—banks, savings and loans, mutual savings banks, and credit unions. According to the March 20 statement there are 8,500 active lenders in the guaranteed student loan program, 8,500 out of almost 42,000. That, in and of itself, may speak for the complexities of the program. Perhaps with some simplification and inducements the other 33,500 lenders would be willing to participate in the program.

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As was mentioned earlier, a student loan does require continual servicing on the part of the lender even though it is warehoused not on his premises. Our bank, however, does not participate in that program.

I will address the delinquencies in Pennsylvania as I get into the State plan; however, I would like to say that if Secretary Califano's point is right about 24-percent yield on student loans, I would suggest that 42,000 lenders would be in that program tomorrow.

There are some loan availability problems that seem to have developed, in that some lenders are careful about first-year students, who are just entering the undergraduate world. The dropout problem, and the fact that 1 year becomes 15 years on a $1,000 to $2,500 loan, plus the cost of maintaining the loan over that period of time, account for the reluctance of some lenders to lend to these students.

In the State of Pennsylvania we do not have that problem. I have never known of a problem with first-year students, and of course the students that apply to banks in Pennsylvania in reality receive a commitment for the term of their educational process up to, of course, the maximum as established by HEW, which is the same in the State of Pennsylvania.

The commercial banks have been participating, as I said, right along, and we have been confused by the lack of regulation promulgated for the various amendments to the law that you gentlemen passed in 1976 and 1978. But we are very fortunate, we have a State agency that can digest these changes to a great extent and has an ongoing relationships with Washington. This enables them to direct the banks in the State relative to interpretation of what should or should not be done.

In addition to that, all banks in Pennsylvania work through one agency. Individual banks do not have to work directly with the Federal Government on their own.

As I understand it, there have been 11 separate laws modifying this program in some manner since 1965 affecting all parties to the program, none of which have been clearly defined so that they can be easily understood by those of us who participate.

Relative to the rate of return on student loans, there have been times when it was extremely low. At present it is close to the market rate, at least in Pennsylvania. However, I hope all of you will keep in mind is that a commitment today at whatever rate it might be must he supported by the development of funds. So our commitment today, could very well be a 15-year commitment from day 1 of the loan. The confusion surrounding the prime rate, which was mentioned earlier, is a very simple problem compared to the projection of what you will pay for money in 5 years or 10 years.

So we have to take a long-term liability position, if there is such a thing, in our sincere desire to support the student loan program for a period of time.

The other problem the banking industry had for many years was the problem of illiquidity in the student loan portfolio. That of course has been resolved now through the Student Loan Marketing Association.

One thing we might suggest for consideration relative to out-of-school loans—and I think this was mentioned earlier—is a graduated repayment schedule. We find the students that come in to repay an obligation after they have graduated are desirous of repaying their loan as rapidly as they can. The problem is that they are just starting out in employment, many of them are on the threshold of marriage, and their commitment becomes the lowest one possible, which translates to the longest term possible.

If there was a graduated method so that the student could accelerate his payments as future payments occur, on a set, determined schedule, I think he would be better able to project his repayment potential. We do find that students make multiple payments to retire their obligation as they move along in life, responsibility and income.

Part of our written statement devotes itself to multiple lenders, which is an extremely difficult method of handling student loans, particularly in repayment. I would like to emphasize again that the State program, at least the Pennsylvania State program, works with only one lender for the life of the student obligation. If a student moves from another State to Pennsylvania and has student loans and wishes to continue on that program, the student loan is purchased from the other financial institution by the bank that will make the next loan.

As I said earlier, that constitutes a commitment to extend up to the maximum under the loan program. Pennsylvania banks also make loans to out-of-State residents when the student comes into the State for their education.

I would like to echo my support of the floating special allowance rate provided for in Mr. Biaggi's bill. This will at least put financial institutions in the position of being in the marketplace when they elect to participate in the program.

Before Mr. Lancaster speaks I thought you might like to know a few facts about the Pennsylvania program. I believe it has been mentioned earlier that the best information we can get through September of last year indicates that there have been approximately $14 billion worth of student loans processed through the life of the program.

During that period of time, Pennsylvania has processed roughly $1,125 million. The figures as of the end of March of this year are, $1,310,487,279, with the present outstanding as of March 31 being $18,330,702. I would like to suggest that we have really tried our best in Pennsylvania and I would like to attribute that to the liquidity of the banks in the State of Pennsylvania, and their willingness to put $1 billion in what you might call a stagnant loan program because of the length of time it takes to earn a return on investment.

The number of loans have been increasingly considerable and although I am not sure this figure is correct, I believe that to date they are roughly 40 percent over 1978 figures.

The delinquencies which were discussed earlier are 11 percent, in Pennsylvania. That delinquency figure means that 11 percent of the loans outstanding have had to be purchased and the purchaser lost 2.8 percent on the loans. I think these figures, and other States have similar results, are an indication of what can be done when the program is handled and controlled properly.

You might be interested to know about the participation of banks in the Pennsylvania program. Eighty-two percent of the bank participate. As for other eligible lenders: federal savings and loans, 4.5 percent; State savings and loans, 1.1 percent; credit unions, 1.7 percent; mutual banks, 10.9 percent. That comprises the $1,310 million that we talked about.

I could go on with the various kinds of information of support that are available to the banks of Pennsylvania through the State agency. In the interest of time, however, I will only touch on a few. In order to stay abreast of the status of students in school, out of school, graduating, and so forth, there are 44 computer terminals hardwared from Harrisburg to schools of higher education updated on a continual update basis. The documentation has been consolidated considerably and at the present time I believe Pennsylvania and HEW have finally come to grips with a two-sided 1-page application to include everything necessary to cut down on paperwork.

The agency mails the applications out. The student does not have to come in to request it. He comes in with the application hopefully filled in. There are eight regional offices in the State that service the major areas of the State. They act as interpreters of the regulations. They work with Sallie Mae on processing Pennsylvania loans purchased by Sallie Mae from Pennsylvania banks.

I suppose I could go on and on, but I cannot overstate the fact that when when a lender has a problem in Pennsylvania, he has somebody to talk to, somebody to work with him and somebody who will go to bat with the Federal Government for him. As a result, on the defaults between 90 and 120 days the State has never dropped below 100 percent for reimbursement. I am in total support of the State program because it has truly been an assistance to the students in Pennsylvania seeking higher education.

I thank you very much.

Mr. FORD. Mr. Lancaster.

STATEMENT OF GREGORY LANCASTER, VICE PRESIDENT, SECURITY PACIFIC NATIONAL BANK, LOS ANGELES, CALIF.

Mr. LANCASTER. I am afraid my picture will not be quite as bright. On March 1, 1976, Security Pacific curtailed the lending in the student loan program. We have been a federally insured student loan State, however as of April 1 of this year our State guarantee program came into being and insured its first loan. Although Security Pacific from March 1, 1976, until the present time has only lent to prior borrowers, we have stated that we will join in the new California program.

When we entered the program in 1968 we saw it as an additional opportunity to achieve our corporate goals. We think we have done a good job. We have lent $53 million and still have approximately $20 million still outstanding. We have not utilized Sallie Mae, so therefore we have collected either from the student or through a default process approximately $33 million. The reason for withdrawing from the federally insured student loan program resulted from operational difficulties and the broad misuse of the program. We could no longer justify our involvement in this program. The administrative process of the federally insured student loan program has been very poor in past years. I must admit that was primarily in Washington, D.C. We have to give our regional office in San Francisco the credit it deserves. They tried to do what they could for us.

In 1976, the claim process had ground almost to a halt. We had over $1,200,000 outstanding in claims. Today it is an entirely different story. We only have $128,000 outstanding in the claim process, of which $10,000 has been outstanding over 90 days, a great improvement.

However, I understand that not everyone is in the same position that we are. I have heard of claims outstanding since 1975, 1976, and 1978 that they have not been processed. The Office of Education has not denied claim payment, but they have not paid the claims either.

When you inquire about claims, unfortunately the Office of Education cannot find them in many cases or they ask for duplication. We at Security Pacific sent in three death notices on one individual. They sent the claim back to us as they could not find the death certificate in the package. We found all three copies of the certified death certificate. So, there is a long delay in their processing in many cases, but I think the most frustrating problem of working with the Office of Education is their lack of clear definitions, procedures and guidelines. They issued an operating manual to the lenders in February 1977 and they promised regular and prompt updating of that manual. We have not received an update yet. That was in February 1977, and it did not include amendments to the programs made in 1976 or 1978.

The operation involved in of working with Washington not only created problems for us, but it was also an embarrassment to us. The students would dump the problems right back on the lender so that when we went in to assist the students and to establish a long-term account relationship it did the absolute opposite. We became the bad one, not HEW. The student could not see the problems of working with HEW. So our long-range objectives were not realized.

Security Pacific Bank, we feel, is very experienced in the program and we have been counted on by other banks and by Government agencies to offer our insight into the problems in the program. We have brought up various deficiencies and suggestions to the program, but unfortunately they have not been acted upon.

Let me go back to 1970 and cite an example. There was a gentleman by the name of Rudy Mappas who has a total staff of six people trying to run the whole California region. He prepared a letter that we could send out which you would call preclaim assistance. He had not signed these letters. They were on OE stationery. The lenders would take the letters and we would address them to the student that we were having the problem with. We would send them back to his office, he would sign them, put them in a Government envelope, and mail them out. It was his form of preclaim assistance. He was told by OE that this could not be done.

So they went into a very complicated preclaim assistance situation where we had to go through Alexandria or Arlington, Va. We had to send the form back. We kept a copy and they had a copy. This procedure was utilized for approximately 3 years. However, what was happening was when you ask for preclaim assistance as a lender and you would continue with your collection assistance, you would send off that form and in the meantime we would make our phone calls and send out our own letters. It was taking 45, 60, and 90 days for them to send out the preclaim assistance. What was happening in many cases was that the student was maturing the default, they were current, and then suddenly HEW would zing them with a letter—but they didn't tell them on such and such a date—that notified them that they were in default.

We are no longer utilizing that on the west coast. We have gone back to a letter produced on HEW stationery and it is supplied to the lenders, and the lenders type in the name of the student that they want preclaim assistance on, and we stick this into a government envelope, we send it to a distribution point in southern California for those of us in southern California, and it is sent out. We have gone back to what was illegal in 1970.

Mr. Biaggi. Illegal but effective?

Mr. Lancaster. That is correct. And today they realize it.

One of the forms they require everyone to use is called a SCR and LTS. Twice a year they ask the schools the status of students with loans outstanding. That form comes into their office, they run it through the computer and it comes out to the lender of record, the information is sent out to them in what they call a loan transaction statement. Approximately 50 percent of the information that flows into our office on the Government loan transaction statement is incorrect or outdated. When we compare this against our record and it does not compare, we do not utilize their information, we go back to the school and ask that school: "Is this correct?"

As I said, 50 percent of the information is incorrect.

We have made a suggestion several times, and we submitted it to Mr. Kornfeld again last January, that they improve this system. We recommend that they put something into the system that will enable us to get this information in a timely manner. We asked them to put time elements on it so that down the road we would not be getting information that is inaccurate. Nothing has been done yet.

Something has been done, however, under the State programs. They have gone to their own student confirmation reports, so a school in the past that might have been receiving only two reports per year requesting information on their students can possibly receive, 108 reports. So instead of two reports, which would have great importance, we are going to end up with approximately 108.

Mr. Kornfeld has in many cases delivered a speech and referred to the Washington, D.C., program. He came out to California last December and told a group of student financial aid officers that if the State of California didn't get their act together and get moving he was going to come out and do it for them. He was going to bring a Federal program in that he said would be as successful as the Washington, D.C., program. I do not question that the Washington, D.C., program is successsful. It is a success because the Federal employees are doing part of the work that should be done by a lender. Floor space is devoted in Mr. Kornfeld's office to interviewing of the students. Loans are dispersed by one bank in Washington, D.C. The following day the bank sells the loan to Sallie Mae, and Sallie Mae pays that bank a premium of $35 on each and every loan they make.

I have said to Leo Kornfeld, if you come to California with this program I would be quite interested. The student will receive a check drawn on Security Pacific National Bank and he really will care less who owns the loan.

The Washington program is successful because of this premium, when we suggest that a front-end fee be paid to all lenders, there is not much warmth in the reception of that idea.

Mr. BIAGGI. You talk a little funny, not much warmth in the reception to that idea. Why don't you say it straight out front? They do it here in Washington. You say they get $35. Why not there? They are just not doing it. They are engaging in double standards. We know about Federal bureaucracy. It stinks. You say 50-percent ineffective. We are so boggled with this thing, I would say that you take the more optimistic perspective and say it is working 50-percent well.

Mr. LANCASTER. I am hoping for it to work 95-percent well.

Mr. BIAGGI. Go ahead. Excuse me for interrupting.

Mr. LANCASTER. Recently we received a letter from a regional office. One of the problems of student loans is the forbearance, and the request for forbearance is because the student does not have the money to pay so he is given a forbearance. We have been asking for years to have the authority to give a forbearance without sending a piece of paper up to Washington saying: "We have given Johnny a forbearance for these months and please approve." They rubber stamp and send it back. To save paperwork I suggested that OE knows the good lenders and the lenders that they are going to have to watch, so why not go to the good lenders and say you have authority to give forbearance within certain guidelines.

They have reacted to that finally. We received a letter stating that we could do this; however, OE requires us to maintain a forbearance report, report it every quarter, and if down the road that loan should go into default we must so note on the claim that it was in forbearance, then they will check it against my report.

My reply was: "Thank you for your timesaving procedure, but we prefer to use the old timewasting one because the new one is not going to help us." They are giving us additional work.

In July 1978, we were going to compare the Bureau of Student Financial Aid Assistance records against Security Bank records to see how they match. We have not had the comparison finished yet because they are still working on a program back in Washington.

Mr. Biaggi, we support your bill to remove the special allowance gap. We think it is great.

Mr. BIAGGI. What about 6 percent?

Mr. LANCASTER. I am not in favor of it because what would happen later this year if 6 percent does not look desirable? I say remove it and let it remain tied to the T-bill. I am not suggesting that we start over. I am suggesting that we improve what we have. Security Pacific National Bank has made a public statement that we will support the California program. Why are we going to support the California program? Because we designed it, the users, the State of California, the Student Aid Commission, and the student lobby groups were there.

The lenders were there and the educators. We met for a long time. We feel that our program is the best. We feel we have stolen the best of every State program so far. We are looking at the State of California program as the answer to the Federal problems.

I think we are going to have to look toward increased lender participation and we are going to have to look toward a front-end fee. We do not sell to Sallie Mae. There is a cost involved of selling to Sallie Mae. Every time I put a loan on my books it costs me $50 to $75, regardless of the dollar amount of the loan.

By the way, $50 is not based on the Security Pacific Bank's costs, but that used by a very large lender in the State of California who I believe has great expertise in this program.

I think that the States are doing a fine job in the State programs. I think that the major role of the Bureau of Student Financial Aid should be that of providing assistance and gathering information to support the State programs, and I believe they should follow the intent of Congress, not merely what they want to do.

Thank you.

Mr. FORD. Thank you very much, Mr. Lancaster. You paint a pretty dismal picture from the perspective of a banker with experience with federally insured loans in the State of California. You endorse wholeheartedly a program that made its first loan in April. That is pretty progressive for anybody in your business to go that far out on a limb. Are you satisfied with that short experience that this is going to work much better than what you had to do before?

Mr. LANCASTER. No, but I think the California program has addressed the problems in the Federal program, the difficulties of working with that program. It has built in, shall we say, improvements or a fail-safe situation so we will not get back into these difficulties again. We have great faith in the California program.

Mr. FORD. You are not concerned that the Federal Government involvement through its money is going to end up messing up the California program?

Mr. LANCASTER. I am sorry?

Mr. FORD. You are not concerned that the Federal Government will mess it up?

Mr. LANCASTER. I say leave it alone. Let's not give the Federal Government any further power to interfere with the States' programs. Let us have the chance.

Mr. FORD. That is interesting. My taxpayers in Michigan would be pleased to trust their money to the Californians without any hired hands in Washington watching it. You want to take our money but tell us to stay out of your business?

Mr. LANCASTER. You mean this 2 percent?

Mr. **Ford.** Can you urge that we take a position that, once a State agency has been created, we send Federal dollars and let the State take care of it with no regard to whether that is good or bad?

Mr. **Lancaster.** Of course not, but let's say: "The Bureau should assist and guide the State programs," guiding, assisting, and supporting. If a State is doing it correctly, the Bureau should state that.

Mr. **Ford.** Where does the money come from?

Mr. **Lancaster.** From the State of California, from the students. It is not coming from the Federal Government.

Mr. **Ford.** There is no Federal guarantee involved?

Mr. **Lancaster.** Insurance only. Interest subsidy is assisting the students, that is correct, the special allowance is making it attractive. The support of the State of California program will be run by the insurance premium plus the seed money from the Federal Government.

Mr. **Ford.** I cannot recall exactly when it was, a couple months ago we met in Oregon.

Mr. **Lancaster.** The first of May.

Mr. **Ford.** I had made some sort of statement on a panel to somebody from the Office of Education that student loans had proved to be profitable for many banks that took advantage of the system, and I believe your reaction was it was impossible for a bank to make a profit and handle student loans.

Mr. **Lancaster.** I believe what you were refering to was the use of Sallie Mae. My disagreement related to the cost of funds, the cost of originating the loan, the cost of maintaining it on your books and the cost of sale to Sallie Mae.

Mr. **Ford.** I am not quarreling with those factors. But I assume the thrust of your testimony is that you have had some experience with a loan program operating directly with the Federal Government and you do not want to say the student loan program cannot exist with something like that.

Mr. **Lancaster.** That is correct.

Mr. **Ford.** From the standpoint of the lender if, in fact, it is your view that banks cannot make a profit handling those loans under the circumstances, why do you advocate continuance of the present program rather than its replacement with something else?

Mr. **Lancaster.** I believe that the remark that touched off our disussion was the fact that a bank could make 18 percent or 17 percent, and that is not true. We would like to break even.

Mr. **Ford.** I think it was closer to 27 percent. It wasn't really my remark. But it was predicated on an assumption of $500,000, was it, in loans with 8 percent coming back. The effective interest earning on the additional investment would turn out to be 27 percent. But be that as it may, that is perfectly legal and it is there. What I am trying to get is, are you suggesting that, notwithstanding the fact that the present system is not profitable for lending institutions, we should continue the system rather than consider some other alternative?

Mr. **Lancaster.** I am suggesting that we let California have a chance at it and hopefully in the State we will be able to break even. That is what we are looking toward. We are not looking toward a great profit on this.

Mr. **Ford**. Do you have any kind of hunch as to why the largest State by population in the country is one of the last to come onboard with a State guarantee agency for student loans? Californians tend to think of themselves as very progressive. They are ahead of us with proposition 13. What has been the holdup in California?

Mr. **Lancaster**. The poor experience with the federally insured student loan program. I have been personally told by many lenders that they may use this as an opportunity not to go back into any type of guaranteed student loans. You see, once the first loan was guaranteed on April 1, within 90 days all new borrowings must be under the California student loan program. Existing student loans will continue under the federally insured student loan program. Some lenders are saying, Why should we go back into this program? They believe that they can use this as being forced out, the California program is not proven, we do not know what will happen, we can fold up our tent at this point.

Personally, I am doing my best to say, let's go with the California program and see what happens because we did design it. The four parties to the loan designed the program.

Mr. **Ford**. But you are leaving me puzzled again. I assumed your position was that we should maintain the present structure of the loan programs and not consider the alternatives that have been discussed here today and yesterday, but now you are telling me that there is a substantial reaction in the lending community and California indicates they will probably not support the State loan.

Mr. **Lancaster**. The large lenders have all stated they will support it. I am talking about the smaller lenders that we also need in the program also. But what you are saying is correct. What I am trying to say is let's not make any radical changes to this program. Let's not go with Secretary Califano's ideas. Let us continue along making minor changes as necessary such as repayment schedules. Repayment is going to have to be looked at. It is a very serious problem.

Mr. **Ford**. Mr. Wickert, your statement in a very concise way outlines the disadvantages of the present program to lenders. As a matter of fact, it sums it up in one paragraph:

> The major difficulties with the present program have resulted from such inequities as insufficient rates of return on capital invested; excessive red tape and paper work; high rates of delinquencies and defaults; lack of preclaim assistance; lack of liquidity; and delays in claim payments.

I measure that rather strong summary, which you elaborate on later in your statement, against your closing remarks praising the Pennsylvania system and saying that it works very well and that people are very happy with it, but that does not sound like a very happy banker.

Mr. **Wickert**. Where are you in the statement. On what page?

Mr. **Ford**. Page 4.

Mr. **Wickert**. The answer to your question is this: The statement reflects the views of the American Bankers Association.

Mr. **Ford**. You are not saying this on behalf of Pennsylvania. This is not your own experience, but the American Bankers Association?

Mr. WICKERT. Correct. That relates more to the Federal program than the State program. I apologize for that if it conflicted with what I said.

Mr. FORD. Under insufficient rate of return, the Banking Association's position set forth in that first paragraph says: "Under existing loan and special allowance rates guaranteed student loans are not profitable." Would you agree with that?

Mr. WICKERT. It is a matter of allocation. If we are going to buy money and allocate it to a student loan program, no, it would not be profitable, because of the cost of funds. I do not know what the cost of money will be 1 year or 2 years from now.

There have been times, even with some of the high quarterly adjustments, when there is a very close question of profitability. Once the student is out-of-school, loans even with the special allowance are not profitable because they are treated as installment loans. They are treated that way because of the collection capabilities a bank can offer and the cost of handling installment loans, which is why the special allowance must be in excess of 5 percent annualized. So in that sense it is correct. The in-school loans do not require the amount of time and effort on the part of the lender. So it is a two-edged position, if you want to be that definitive about it.

Mr. FORD. With the position stated by the Bankers Association in unequivocal terms, as one who has to decide whether the existing program can be continued profitably or whether it has to be replaced with something else, what conclusion would you draw from this kind of assertion being made on behalf of the principal lenders?

You pointed out that out of the 8,200 lenders in the country, they were overwhelmingly commercial banks.

Mr. WICKERT. 42,000, is that your question?

Mr. FORD. What was the number of commercial banks?

Mr. WICKERT. Roughly 14,000.

Mr. FORD. Who are in the program?

Mr. WICKERT. No. Total. I cannot give you the figure of the banks participating. The figures I gave you were in Pennsylvania only.

Mr. FORD. The ABA says, according to the March 20 statement, there are 8,500 active lenders in the guaranteed student loan programs out of almost 42,000, which is presumably the total number of banks.

Mr. WICKERT. I believe that is Secretary Califano's statement, not the ABA.

Mr. LANCASTER. There are 8,500 active lenders. There are 42,000 available financial institutions.

Mr. WICKERT. Half, or a little better, are credit unions, so there is a distortion in the percentage of eligible participants in the program.

Mr. FORD. But we would expect that the credit unions would come into the business, now that we have qualified all their members' children for loans; wouldn't we?

Mr. WICKERT. I do not think so, because they do not have any rate ceiling on what they can pay for funds. I would think that they would press more toward the program if there was a larger spread available to them.

Mr. **Lancaster**. I think, too, that the credit unions would not be too anxious to get into this for the simple fact that it creates a special program for a limited number of individuals. Your savings and loan and especially your credit unions are very limited in this.

Mr. **Wickert**. I would like to stress the fact that I am not in conflict with the ABA's position except to state that the ABA has addressed themselves in a general manner to the Federal program.

Mr. **Ford**. My concern arises out of what both you gentlemen are saying about the guaranteed loans not being very desirable from the perspective of lenders. You just dashed my hopes that the credit unions were going to jump into the business. I thought when we took the income level off they would be attracted by the fact that most of their members' children would now qualify for guaranteed loans, but maybe that is not going to happen. The ABA says that the banker does not think it is a profitable kind of investment. It has been stated earlier today that I had a whole description coming at me of very shaky programs from the perspective of people we have to depend on to lend money to the students, unless we can come up with some sort of a system to float the interest rate with the anticipated increase in interest costs down the road, since we are talking about loans that could span as long as 15 years. Doesn't this give us reason to believe that we have to do something rather drastic to anticipate the future unavailability of capital from your principals?

Mr. **Wickert**. Going beyond the general presentation of the ABA, I would answer that in this way: I again must relate to Pennsylvania, not as the prototype for the world, but as a system that has worked for 15 years. The inception of the Pennsylvania student loan program did not have reinsurance; it had 10 percent seed money of $10 million, which would enable it to generate $100 million worth of loans. With the 80-20 insurance reinsurance coming into play, and now a higher leverage principle because of 100 percent insurance, providing the delinquencies remain in line, that combination of things has made it work.

It would not work without the Federal reinsurance because the State of Pennsylvania cannot generate enough seed money nor a secondary reinsurance position as the Federal Government has done.

We have always felt in Pennsylvania that it is the responsibility of the State, the banks, and the State agency to do everything to make it work. So we need that support.

If I alluded to that in any way, I am incorrect. What we don't need is an overlay of Federal regulations on top of the State. That would make it inconvenient, if not impossible, to handle student loans.

I would address the rate problem the same way as you would address any problem. In many States you have usury limits on mortgages, even today. What happens in those States if it isn't a practical usury ceiling? Even though it is a State law, you can't get a mortgage. There simply are no funds available in many States. In Pennsylvania, the Installment Sales Act hasn't changed the rate for 31 years, and still we struggle with it and somehow or other we manage costs. But this has been alluded to and mentioned specifically. Never in the history of banking has there been more proliferation of savings programs, variable rates, different structures—go 7 years this, 8 years that—and there are four more right on the burner right now if any of you are familiar with it, and there are going to be 40 more. And if there isn't something on the back end, the variable rate concept for the yield, to support the dollars that must be purchased to buy the business, yes, it will dry up.

I think that is probably the rationale on this point. At the moment the rate is all right, yes, we can get by all right, even make a little money.

Mr. BIAGGI. What about 6 percent as proposed by Secretary Califano, what is your reaction to that?

Mr. WICKERT. Six percent is better than five.

Mr. BIAGGI. I am talking about projecting a business.

Mr. WICKERT. I am afraid not. But I don't have a crystal ball about 1980, 1981, 1982.

Mr. LANCASTER. We get back to the same thing.

Mr. WICKERT. If you take the last 2 or 3 years, and look at the people that have come in for loans, and write a projection as to how well they are going to do, and then take the last 3 or 4 years and write a projection of the rate increases, and the proliferation, of savings methods, and the quarter point advantage that the thrifts have over the commercial banks, I don't know what the banks are going to do for money.

So if we have to buy money to make student loans and there is a margin, we will do it.

Mr. FORD. Mr. Buchanan.

Mr. BUCHANAN. I share some of the chairman's concerns and puzzlement. I believe in the free enterprise system. I am a private enterprise oriented person. But if I were a stockholder and they were doing things that were absolutely totally unprofitable, couldn't be profitable, I would insist they get out of it.

You mean to tell me that the banks in this country, that are in the student loan program, are in it only as a public service and as an unprofitable venture—acting as an eleemosynary institution or a charity doing somebody a favor, with no element of profit, purely public service; is that correct?

Mr. LANCASTER. In many cases you are correct.

Mr. BUCHANAN. Does ABA have any figures on average profit made on NDSL?

Mr. WICKERT. I don't know how you can do that because it really involves managing the spread and changes in each financial institution based on cost of money, cost of lights, overhead, whatever you want to talk about, but I will answer your question.

The answer to your question is either yes, no, or no, yes, depending on what quarter you are talking about. There have been times when quarterly reimbursement has been fine. There have been times when it wasn't sufficient. There were times when you couldn't get quarterly reimbursement on student loans out of school.

Some of those are still on the books at 4 and 5 and 6 percent with no quarterly reimbursement. If you take the whole thing as one whole package, I don't know what the answer is.

I can isolate any group you want and prove profitability or loss. But if you are looking at the whole ball game and if we are allowed to continue to grow with the program, as I think everybody really is trying to do, and wants to do, and continue to have the support of this committee and the thoughts of the Congressman relative to variable approach, I think it can go on forever.

Mr. **Buchanan**. Well, you know, as you have pointed out, you have a great many more lending institutions than you have participants in the program, and while banks have been participants beyond their percentage of total lending institutions, I can't be very optimistic if it really is a matter of the nature of the loan. If it is more than a question of the ceiling, if it is because of the nature of the loan, the nature that is difficult to change, it makes me wonder if we really can keep going with this route.

Mr. **Wickert**. If we could be guaranteed that all things would stay as they are today, I think even on the 13-percent question it would work. That however doesn't happen.

Mr. **Ford**. I think what is troubling is that the administration has been telling us that they are very much concerned that what happened here in the District of Columbia can and will happen in other places.

Bankers just opted out of the program, the total program here. There wasn't a guaranteed student loan of any kind available. In the State of Colorado, with which I have some familiarity, they dropped from an average of some 25,000 to 30,000 guaranteed loans a year down to last year some 5,000.

Something is happening out there. So the administration said we are concerned about the availability of loans to people who need them on a universal basis, but in some parts of the country where the program works as well as it does in Pennsylvania, there is no immediate problem with the availability in the foreseeable future of loans.

The way it has been described to us in the State of New York, it appears that there is no immediate problem. We do know that there are in fact all kinds of indications that there are problems around the country and it has been indicated to us that the bankers in California are something less than enthusiastic about getting into any kind of guaranteed student loan program.

How do we respond to their assertion that we do have a problem with loan availability?

Mr. **Wickert**. Colorado operates under a Federal program.

Mr. **Ford**. Yes; they don't have a State agency.

Mr. **Wickert**. Disenchantment.

Mr. **Lancaster**. One of the things they could——

Mr. **Ford**. They could get enchanted tomorrow. All they do is create a State agency and operate like Pennsylvania, but they haven't done it.

Mr. **Lancaster**. In the State of Pennsylvania, the actual State put some money into the program, actually gives money to the lenders. There is something——

Mr. **Wickert**. The administrative costs, also.

Mr. **Lancaster**. The administrative cost is returned.

Mr. **Wickert**. Administrative cost of the agency funded by the State.

Mr. **Lancaster**. There is a way that the Bureau could do something right now. The Commissioner of Education has the authority to allow lenders to set a front end fee for a student loan. He could set a ceiling on it if he so wanted to, $50 to $75 for each loan. That would then make it more attractive for a lender to lend the money. Getting this fee would then cover his costs of setting it up, in turn, sell the loan to Sallie Mae, an outright sale, not warehousing, then take the money and turn it right back into a new student loan.

That is starting the same procedure over. That authority lies with the Commissioner. This has been discussed with the Bureau but they have not had any positive reaction to it.

Mr. **Ford**. You are suggesting that this program would be more attractive to bankers if they were permitted to charge the borrower a fee for processing the paper?

Mr. **Lancaster**. Yes.

Mr. **Ford**. What other kind of application for credit do you charge for when you bank?

Mr. **Lancaster**. Home loans.

Mr. **Ford**. Pardon?

Mr. **Lancaster**. A home loan. The processing.

Mr. **Ford**. Well——

Mr. **Lancaster**. I said if we make the loan. Not if you apply. We will not charge a fee unless we make the loan. Presently when a student applies for admission to four different schools they might charge him $50 each, he doesn't get 1 cent back even though he is accepted at only one.

What I am suggesting is a fee if he gets the loan.

Mr. **Ford**. If I borrow $10,000 from you to buy a car and pay it off in 48 months, are you going to charge me a separate fee for processing the paper?

Mr. **Lancaster**. No; I am not because, No. 1, it is a more profitable loan, I have a number of individuals that can process that loan, it is not a specialized loan. You are going to start payments next month. I know what your income is, I know what your credit is.

Mr. **Ford**. Except next month when I start payments all the other people have to process the loan. As it has been described here some of these loans are 15 years.

Mr. **Lancaster**. That is true.

Mr. **Ford**. The first five of that sits on the shelf accumulating interest, you don't have the——

Mr. **Lancaster**. There is such a thing as accounting.

Mr. **Ford**. You don't have to have anybody at the counter to take my payments for 5 years.

Mr. **Lancaster**. Wait a minute.

Mr. **Ford**. After the money is out at 13 percent, do you have anything else in your bank that sits for 5 years without any processing and collect interest?

Mr. **Lancaster**. I think you have a misconception when, you say that it sits on the shelf. If we are going to go to the Government for subsidies we have to bill them four times a year. We have to verify the loans.

Mr. **Ford**. You don't bill a student?

Mr. **Lancaster**. We bill the Government or the student on nonsubsidized loans that are currently on the books. So, therefore, we must process that billing. We have to make sure that the student is still in school and if he extends that at all we must update all of our reports.

Mr. **Ford**. What do you mean by unsubsidized loans?

Mr. **Lancaster**. Unsubsidized loans, those were the loans we made prior to MISA, where the income was over $25,000, where the students themselves must pay the interest while in school, that goes on and on and on.

Mr. **Ford**. What does that have to do with this program?

Mr. **Lancaster**. That is part of this program. In other words, not all loans are subsidized by the Government while they are in school, or out of school. I am talking about subsidized interest, not special allowance.

In other words, an individual who borrowed from our bank, let's say, the early part of last year and the family income was over $25,000, they must make their interest payments while they are in school. We do not go to the Government for that.

So there are costs involved of setting this on our books. While the student is in school we must verify that he still is in school.

Mr. **Ford**. That covers the costs involved for a nonsubsidized loan, which is not what we have been talking about.

Mr. **Lancaster**. For a subsidized loan we must go to the Government four times a year and ask them for the interest. That is an accounting function. Whether they are subsidized or nonsubsidized we have to verify that they are still in school. It is not really sitting on our books, we have to do certain things for that loan.

Mr. **Wickert**. Your average commercial line of credit today is in the area of prime plus or minus supporting deposits, generally add roughly 1 percent to the return. Those loans, of course, are in much larger denominations than the student loan, they require one piece of paper, and are very simple. If you are drawing an analogy or comparison with what can you put on the shelf I would say there are many, many types of lines of credit just as good that require less work, have more liquidity and many other features that we have to look for.

Mr. **Ford**. There is nothing that you have in short-term money out there that doesn't require more servicing than this freshman's loan that is sitting there until 1 year after he or she finishes college?

Mr. **Wickert**. I drew a comparison to a commercial obligation. Are you suggesting we talk about another form of loan?

Mr. **Ford**. Any kind of loan that you make for a comparable period of time, 5 years, has an advantage. It gives you money back and you are not gambling so long on the interest rate, but it is going to require virtually monthly servicing of some kind, isn't it?

Mr. **Wickert**. Yoy are suggesting——

Mr. **Ford**. What do you have to do with this loan after it is granted and the check passes over to the student and institution, during the period before repayment is due?

Mr. **Wickert**. The various procedures that Mr. Lancaster stated and that is all. You have to remember that there is no liquidity in the loan. You take a 5-year loan of any other type, and the money comes back continually, then you reemploy the money at a new rate.

Mr. FORD. According to the statement of the American Bankers Association that problem was solved with the Sallie Mae, Sallie Mae sitting down there at the end of the street, any time you want to sell it to them you can sell it to them.

Because until this point banks haven't had the liquidity problem where they have turned to Sallie Mae. That is what Sallie Mae told me that they expected, that one of their principal functions was to be there if they are needed. They shouldn't be measured on how much money they are putting out but how much they have got available if they were needed, and that in turn provides the reassurance to lenders to get into the business.

Mr. WICKERT. I think that is probably true.

Mr. FORD. If something goes crazy with the interest rates. I suppose there would be a run on Sallie Mae.

Mr. WICKERT. I don't know the answer to that because another problem with Sallie Mae, is that it is not the most easily understood organization by a lot of bankers in the United States.

Mr. FORD. I found in questioning my own banker, who is a member of the ABA's government relations, or what is it, Committee for Policy, when I asked him why he wasn't in the student loan business he threw up his hands and said Sallie Mae wants to shake you down for $100,000 in stock before you can do business with them.

Mr. WICKERT. It is $15,000.

Mr. FORD. It has been changed?

Mr. WICKERT. Well, I don't know, when did that happen?

Mr. FORD. A smaller investment. I thought $100,000.

Mr. WICKERT. Oh, I thought you meant investment.

Mr. FORD. It is apparently true that a large number of bank executives are not very well acquainted with the availability of this program.

Mr. LANCASTER. There is a cost factor involving sales to Sallie Mae, getting the documents ready to go to Sallie Mae, which is another cost that the lender would have to absorb if he goes and sells loans to Sallie Mae.

Mr. FORD. Well, in spite of the fact that this was supposed to end up, I suppose, as a break even if not profitable operation, about 97 percent of the money is borrowed from the Federal Government over there, so you have got an agency that is lending and using money from the Federal Treasury, in effect, to purchase by the Treasury, to put out there for lenders to use. It is hard for me, as limited as my knowledge of banking is, to understand why that hasn't been profitable to lenders and why it wouldn't be attractive with the kind of guarantees that are involved.

You gentlemen are leaving me with a feeling that this is a very shaky proposition in terms of loan availability for the future.

One final question. It has been asserted by some witnesses here that when we took the income cap off of guaranteed loans with the Middle Income Assistance Act, we set in motion a process by which bankers would be tempted to lend their money to preferred customers, depositors families, and so on, until it was all gone and there wasn't anything left for poor people who needed the loan desperately for access to education.

How do you react to that assertion? Is there any danger that is going to happen?

Mr. **Wickert**. I don't believe that is a generally known fact. It is certainly not promoted by any financial institution that I know of. When a new borrower comes in, it is just handled automatically, it is not highlighted.

In our case, in our bank, we haven't noticed any run on that kind of a loan or anything of that nature.

The only time it really comes up for discussion, involves a renewal application where the parents have been paying the interest for the first year or two, or whatever that period of time was. That still continues. The new loan is under the new program. We haven't noticed anything of that nature.

I would like to just do one thing in trying to clear your mind in regard to both my position, which I believe is reasonably clear, and the ABA's, in that the ABA statement is a broad review of the student loan program as it has operated primarily under the Federal program, which is where they had most of their exposure, because the bankers in the Federal program had no place to turn except to the ABA. That is the thrust of the written statement.

I believe if I might speak for ABA, they are totally in support of the student loan program, and so are the banks that are members of ABA. You may have a couple in California who are not. The thrust of what the ABA wants to do is to keep this program operating, with an arrangement that will work well and satisfactory in New York State, Illinois, Pennsylvania, et cetera.

I believe, Mr. Chairman, that under those arrangements and without an overlay of more regulations and more paper work, with the support of Sallie Mae, and all the things that have been discussed, this program will go on to educate the children of the United States to infinity and I think that is what we all want to do.

Mr. **Ford**. Thank you. Mr. Weiss?

Mr. **Weiss**. I really have only one followup area. Given the potential problem that the chairman has alluded to, would it would make sense to set up some kind of alternative expanded direct loan program so that in the event that the banks found themselves in a position where they could not continue with this program, there would not be an utter state of chaos?

Mr. **Wickert**. I think you have done that with Sallie Mae. I believe that was your point, Mr. Chairman.

Mr. **Weiss**. Well, again, I have listened to the give-and-take in the course of the dialog, and although at the very end of the discussion you seem much more positive and firm about the viability of the program, than you did at the beginning, I am not sure there is any assurance that 3 years down the road there may not be a very severe problem of bank participation. The question is whether we wait until that kind of thing suddenly hits us or whether we ought to have programs in place and operating. This could be implemented in those areas where there already seem to be some problems and then we would have some experience with which to face a crisis if it should hit.

Mr. **Wickert**. Mr. Weiss, I don't know where I was negative on the student loan program which you inferred was in the early part of my presentation, because I have never been negative about the student loan program. I have been in it 15 years and there have been a lot of years there where it was difficult to stay in it and the rates hardly permitted you to stay in it, but we stayed in it.

And speaking for Pennsylvania, so did the majority of the banks. I believe that structured even as it is, it will continue 15 more years or more providing the need for yield is recognized. I think that has been discussed fairly thoroughly this morning.

Mr. WEISS. I wonder if I could have your comments?

Mr. LANCASTER. The standby program killed the original State programs. I think what we should do is make the present State program so desirable that the situation that you are talking about will not come about. I think if we develop the last resort type of lending situation it will kill the programs. That is exactly what wiped it out originally.

Mr. WEISS. Well, you may be right, but at the same time I listened to the very pessimistic testimony that you gave and I give it full credence. And giving it that full credence, I look down the road and see the possibility that in fact even in spite of your entreaties to member banks that they may decide thanks, but no thanks.

Mr. LANCASTER. That is true, therefore, we should make this program so desirable that we can keep those lenders and others coming in.

Mr. WEISS. Well, you can make it so desirable, but that depends on what your aim is. If the aim is to create a program that the banks find desirable that is one thing. If you are putting a program in place, which serves the purpose of providing financing for people who want to go to to school, that is something else.

Mr. LANCASTER. I think this program should be similar to those in States where State agencies have proven that their lenders are very satisfied, such as the Pennsylvania, the Illinois, and the New York programs.

Mr. WEISS. Well, it seems to me you can't really have it both ways. I don't think you can come here and scare us with the recitation of the terrible state and then at the same time say, but it is OK, don't worry about it. I think that we do have to worry about it.

Mr. LANCASTER. I believe my comments related to what has it been like dealing with the Federal Government? In my case it has always been with the Federal program. We are looking toward the State program to solve these problems.

Mr. WEISS. Thank you. Thank you, Mr. Chairman.

Mr. FORD. There are still 10 States, for whatever reason, that don't choose to do that, and that still leaves us——

Mr. LANCASTER. It could be that they were listening to Mr. Kornfeld's speech. He stated that he is going to solve it so why should they rush into it. I shouldn't say rush, I guess. And I do think they are coming into the program. I think they are all coming into it.

Mr. FORD. With all due respect to Leo Kornfeld, his influence, as great as it may be, is rather recent in this program. Some of us never heard of him before 2 years ago. I don't know what influence he has had. I do know that we used everything but a cannon to bring the States into this in 1976 because there was no action before 1976, we had stagnated.

Now you are suggesting that the threat to the existing State structure is a real peril, and the States have not demonstrated all that much enthusiasm. Many of the very large States, are still out.

Mr. LANCASTER. That is true but HEW has done nothing to encourage the formulation of new State programs either. I think that was Congress intent. We have not had any salesman coming out from HEW saying set up that State program.

Mr. FORD. It sounds to me, from your description of the way FISL has worked that that is all the encouragement you ought to need, that is the way to escape it, set up a State program, but it took California a number of years to decide they wanted to escape.

What were the California bankers doing all this time? You made $60 million in loans.

Mr. LANCASTER. $53 million.

Mr. FORD.$53 million in loans. You were into it pretty deep. It seems like we have a constant and continuing interest in escaping from that FISL system. What you did is opt out of the program altogether.

Mr. LANCASTER. We ceased lending to new borrowers. That was Security Bank's steps in stating that we could no longer continue working under that environment. Other lenders took different steps, instead of saying no longer to new borrowers they curtailed their total involvement. Perhaps by lending less dollar amounts by excluding freshmen, excluding vocational school students, those were the steps they took.

I think that earlier we heard that the 1978 totals were 50 percent of the loans made in 1972.

Mr. FORD. The net leaves one to assume that there are some people in those States who are not getting loans, some because they are freshmen, some because they are going to vocational schools, or and whatever reasons bankers in those States may use to hold down their involvement. In a State like Colorado they are out of it altogether. They are not making any student loans.

Mr. LANCASTER. I cannot speak for Colorado. I would have to agree with you.

Mr. FORD. It is not a small, backward State when it comes to the number of institutions of higher education it has. The number of students did not just disappear. As a matter of fact, it is one of the growing States. At the very time when they are growing too fast in population, the number of student loans has dropped off to practically nothing all of a sudden. Something strange has happened. The Office of Education feels the bankers decided in Colorado that they do not want to handle the program.

Mr. LANCASTER. The assessment is probably correct. They had been working under a Federal program; maybe they all decided to take a giant step and say, we have had enough of this. They will have to come into a State program, eventually.

Mr. FORD. I hope so. Mr. Buchanan.

Mr. BUCHANAN. First off, Mr. Wickert, if I move to Harrisburg I look forward to doing business with your bank. I hope your tide will increase. I know there are other people like you in the banking business around the country. My concern is finding the ways to assure that enough people, who are in charge of financial institutions, do what you, in fact, have done and indicate a commitment such as yours. For, as is perfectly plain, this is a very important part of the hope for education for a great many young people in the country.

Secretary Califano used figures of a possiblity of—24 percent, was it? Return, and he had some examples. I think it for the record would be helpful if somebody in the American Banking Association could give a comparable response indicating why that is in accurate. I certainly know that is not true.

Mr. **Wickert**. Without knowing his assumptions, it is very difficult to try to come to grips with it.

Mr. **Buchanan**. You do not have to do it right this minute. I am asking, in connection with these hearings that a comparable response be given, because we have to deal with the testimony in the record. Even if we are convinced it is not a completely accurate picture, we still have to answer that question.

Mr. **Wickert**. Certainly, ABA will provide that for the record.

Mr. **Buchanan**. Thank you.

[The information referred to follows:]

ADDENDUM
TO
STATEMENT
OF THE
AMERICAN BANKER'S ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
OF THE
COMMITTEE ON EDUCATION AND LABOR
U. S. HOUSE OF REPRESENTATIVES

JUNE 15, 1979

Mr. Chairman and members of the Subcommittee, the preceding prepared statement was submitted on behalf of the American Banker's Association to present the Association's views of the Guaranteed Student Loan Program as it is operated under both the state and direct federally insured programs throughout the nation. My remarks to supplement the prepared statement were made as a member of the Board of Directors of the Pennsylvania Higher Education Assistance Agency, and my close association with that Pennsylvania agency clearly indicates my personal opinion and experience that state agency-operated programs are the most efficient way to administer the student loan program.

The Subcommittee is aware of the success of the federal-state partnership with the private sector lenders in Pennsylvania and of the efforts of Pennsylvania to assist other states to become operational, to improve their state program and to assure student loan access through its servicing of loans sold to the Student Loan Marketing Association by the Pennsylvania, New Jersey and Ohio lenders.

There was considerable discussion before the Committee concerning lender participation in the Guaranteed Student Loan Program. The Pennsylvania agency has enrolled ten lenders of second resort to assure each student access to a loan. It is my understanding that each state has filed with the U. S. Office of Education an outline of its program to assure loan access to its residents. The cost of money impacts upon lender participation in the Guaranteed Loan Program and most laymen do not understand that a lender must look at the cost of money invested in student loans over the entire 15 years or so that the loan is outstanding. The concept of the special allowance floating free (no caps) with the Treasury Bill rate would allow the lender to cope with all market conditions over this extended investment period and is the approach that would most effectively encourage the lenders to invest the necessary funds in the Guaranteed Student Loan Program. This could assure that there would be sufficient loans available to meet the normal demands plus those additional loan requests generated by the Middle Income Student Assistance Act and thereby to provide families with the funds needed to finance the rising costs of education.

As I pointed out at the hearing, I have some problems with the multiple disbursement concept which allows interest on the full principal from the time of the initial disbursement. My response to this question represented my personal views and not necessarily those of the ABA. Multiple disbursements as outlined are designed to maximize lender revenues during the period of maximum costs (when the loan must be disbursed and entered into the bank's accounting and computer records). My preference is a placement fee; we have such in Pennsylvania. A placement fee reimburses the lender during the initial part of the loan but does not create an additional work load in the college student aid and business offices. Receipt of three or four jointly payable checks annually could create some real institutional problems for the colleges.

The entire process of receipt of disbursements at the college level could be improved, however, under the multiple disbursement proposal if a state agency or a large lender would undertake the task of disbursements on behalf of the lenders. One check could then go to a college with a roster of students represented by that particular disbursement. This could be done on a state-by-state basis; it would not need to be developed on a nationwide basis since most students do enroll within their home state. However, it seems to me that the placement fee would be less complicated and has the advantage that it could be readily instituted in every state.

Thank you for allowing me to file this supplemental statement to clarify those discrepancies which appeared to develop because of my personal experience with a strong state agency and the ABA official statement which reflected to a large extent the negative experiences of our lenders in the direct federal insured student loan program.

John D. Wickert

Mr. **Buchanan**. Let me ask you one more thing.

One of our earlier witnesses, Joel Packer, speaking for the U.S. Student Association, pointed out that the 1974 amendments allowed lenders to issue loans in multiple disbursements, yet collect their full interest subsidy upon issuance of the first installment to increase incentives to participate. You could, for example, give a first-year student only half their loan in the first semester, when you have a lot of your dropouts I wonder if you feel issuing the the regulations so you could exercise that option would be helpful to the program.

Mr. **Wickert**. $2,000, two-semester loan, advanced at $1,000 at a time, with the interest charged on the $2,000 from day 1. I personally cannot totally support that although I cannot speak for the ABA on this point. I think that is a little higher rate than is really necessary. I think the offsetting factor is a processing cost. I think a processing cost would be fair and is required. I do not think I want to charge a student or the Government in a subsidy of special loans for $1,000—I would love to make the money for the shareholders, but I do not think I could quite come out that way in that program.

I do think there is need for front-end costs.

I would like to, if I may, clean up one thing on the State versus Federal that the chairman addressed himself to.

The ABA is in a unique position that you have to recognize in that they represent all commercial banks. I think the ABA has been trying to represent banks involving the Federal program and banks involving the State program. It is not too easy to carry water on all shoulders. So, I think what is happening is a coming to grips of the positive approach of staying in the student loan program. The ABA wants banks to do that. The State Banking Association and I am sure other associations do the same thing. I truly believe if good State programs can be set up as are being set up, and I believe West Virginia is going soon, and Texas pretty soon, and—Colorado. You know, it is going to come to the 50 States. I think a good State program is really a workable program and will educate the children who are our responsibility.

Mr. **Buchanan.** Thank you.

Mr. **Ford.** You seem to agree with the bureaucrats over there because that is permissible under the law, the regulations permit it, but presumably they thought we were too generous to banking.

Mr. **Lancaster.** The cost factor of disbursing twice is involved in that, also.

Mr. **Ford.** Mr. Weiss.

Mr. **Weiss.** I notice in going through Ms. Dickinson's testimony that there is a suggestion as is done in New York, that the schools themselves, become more involved directly in the loan program. I wonder how you would feel about the legislation providing for the schools to become institutional lenders themselves.

Mr. **Lancaster.** I think the track record of the NDSL would indicate they should not. I think they should educate, lenders should lend. They should stay out of the lending areas, let the private lenders continue shoring up the GSL program.

Mr. **Wickert.** In Pennsylvania there are a few schools that have funds of various types that they use for this purpose, and it just follows the normal procedure relative to being processed and guaranteed by the State in the same manner as if they were not a financial institution lender. That is true of pension funds and it is true of other things of that nature.

Pennsylvania about 7 or 8 years ago was the first to move into the secondary market by working with the schoolteachers' pension fund school and State pension funds to create a secondary market for the continuation. That worked until Sallie Mae came in place; now it is no longer needed.

There is one other thing. The best performance on a student loan involves a bank-student relationship as opposed to a pension fund or an institution or a school of higher education that has trust funds to put out in this fashion, because it is more than just advancing, and this is certainly part of Mr. Lancaster's point. It requires not only the processing but the collection effort. Anybody who participates in this program has a responsibility for collection effort up to a point.

Mr. **Weiss.** For example, would it not solve some of the problems Mr. Lancaster was complaining of as to keeping track as to who is still in school and who is a borrower? This eliminates the middleman.

Mr. **Lancaster.** What happens when you have a student starting out in one school, then goes out and returns to school, it could be in a different country?

Mr. **Weiss.** Suppose you have a situation such as the one the chairman was talking about in Colorado where the banks in essence have opted out. Would you in that kind of situation think it makes sense to have the schools themselves become the institutions that finance?

Mr. **Lancaster.** I would not. I still think that Colorado is going to be there. They are moving ahead—the bill is up before the Governor now. I think we have to give it a chance.

Mr. **Wickert.** As I understand the problem, it was more the relationship with the Federal program than the funding of the student loans in Colorado.

Mr. **Weiss**. Regardless of the problem, it seems to me we ought to have some system in place so that if there is a disagreement, a dispute, or unhappiness for any reason, which causes the financial institutions to withdraw, that the students do not end up being the patsies in the situation.

Mr. **Wickert**. I have to say that I think it is in place. I do not know about all States; I am talking now from a State program standpoint.

Mr. **Weiss**. It is certainly not in place as far as Colorado and the other 10 States we have been discussing.

Mr. **Wickert**. More of them are moving toward a State program. I cannot answer that question. I do not know.

Mr. **Weiss**. Thank you.

Mr. **Ford**. Mr. Lancaster, you said, given their track record on NDSL, you would not want the institutions involved in the loan process. One of the proposals floating around is that the institution would be the processor for the purpose of making the loan, but would not afterward service the loan. Somebody like Sallie Mae or some similar chartered agency would service the loan.

When you talk about the track record within NDSL, you are not criticizing their selection of people to whom they give the loans, are you?

Mr. **Lancaster**. I am criticizing the fact the financial aid officer is charged with obtaining funds for the institution, he would also be the lender. It can become a self-serving situation. I am suggesting that if I were responsible for giving out the money but not responsible for the collection thereof, I would certainly not make the same type of loans as when I am responsible for the collection. It would be easier to give out the loan in that situation, but I think it would certainly be harder to collect it.

Mr. **Ford**. In the course of making the $53 million in loans, how frequently did you have to turn somebody down?

Mr. **Lancaster**. Not very often, Mr. Ford. I cannot give you a percentage, but it was very infrequent that we turned them down. Usually we would turn them down because of a bank policy situation.

Mr. **Ford**. What kind of a policy would lead to that?

Mr. **Lancaster**. First-year borrowers. In the past it has been our policy not to lend to first-year students.

Mr. **Ford**. You consider first-year borrowing riskier?

Mr. **Lancaster**. The chances that the student will drop out is much greater. I also believe there should be a commitment by the student to the first year. I think there are enough schools around that allow you to accomplish your first year at a very low cost. Therefore, I think between the family and the student, they should be able to get through that first year. We are, however, changing under the new California State program, Security Bank is changing its policy and we will lend under certain circumstances to first-year borrowers. That will also include certain vocational schools.

Mr. **Ford**. Would you say it is safe to assume that the characteristics of students in California getting NDSL loans, from the standpoint of the economic status of their family or their own status as an independent or dependent student or the place in which they live, would be characteristics that would be expected to be different with the general population served by your guaranteed student loan? Have you looked at the NDSL applicants?

Mr. **Lancaster**. I would not know. I cannot give an answer on that.

Mr. **Ford**. Well, the kids coming from a family below the poverty level until 1972, had no grants. The only source for them was NDSL. It was a policy of some banks in the country not to let some people in. In some places, not everybody was welcome without regard to the color of their skin or the sound of their voice. But with those things in mind in 1975, we said to the institutions, you will lend money under this program on the basis of the student's need, not on his ability to pay, his prospects for success in school, or any of the other characteristics which you as a banker would consider to be sound. They are not allowed to ask enough of these questions according to ABA to determine the desirability of lending money to a particular person. It is not like somebody coming in to borrow for a car, and you ask how long they have worked and whether they have paid off their debts in the past, and how much they owe other people and so on. NDSL does not do that.

Mr. **Lancaster**. Maybe we should call it national student grants if we were to do it that way.

Mr. **Ford**. I do not think anybody on this committee would quarrel with you if we could get the money, but the point is, that program is intentionally structured differently than the program we have been talking about most of the time here today because it was clearly understood that there were not bankers as we have here today in every community in the country. There are a lot of places in this country where ordinary people just have no access at all to talking to anybody in a bank. I do not know what happens in a city like Mr. Weiss' when somebody just walks in off the street into one of those enormous banks, whether there is anybody there to give them the time of day or night.

Mr. **Weiss**. They have branches.

Mr. **Ford**. It is a very intimidating experience. But the whole idea is it could best be determined by an educational assessment and not from the standpoint of all these external considerations which for good reasons are sound banking principles. We did not want to get people into the banking business as Mr. Weiss indicated. We have to sort out what we are trying to do here. We are trying to find the most effective way that every student who needs a loan as a last resort, hopefully, has the necesary part of making up the package so they can attend school, will be able to get one. We were optimistic a few years ago in assuming we could bring private enterprise into the picture by providing incentives through loan guarantees and interest payments and interest guarantees. That seems to be a kind of a mixed bag from what we are hearing here today in terms of our success. Certainly, the majority of lending institutions have not decided to come in in the years we have had the program under way. As has been indicated, there have been times when the interest rates were very unfavorable compared to other kinds of business in the bank. So I guess that would be one of the factors that has discouraged them. But we are left with the question of the best way to make sure that everybody who needs a loan, whether we like them or not, has access to a loan. Because any other policy followed by this government would be contrary to everything else we are trying to do.

Mr. WICKERT. If I may, Mr. Chairman, I think even to this day, this very minute the student loan program is still not properly understood as well as it should be by some financial institutions. I would like to suggest there is not any conflict between ABA's position, Mr. Lancaster's, and mine, we are all trying to get this misunderstanding straightened out.

The historical pattern is in front of us as to how you can disseminate this information down to the banks in any State. We have seen the State agencies do that. I think that creates an awareness and a knowledge of what a student loan is. You could walk into some banks today and ask what a student loan is and nobody would know.

But I think this information gets disseminated and is getting disseminated. I think the States' involvements have really done that job. The Federal program, however, seems to leave a lot to be desired. I have never been involved in it. From what I know about it, I should be very glad I have never been in it. But that leaves a clear choice as to what is promoted, pushed, supported, with supporting yields and return. I think that gets the job done.

Mr. FORD. Well, what Mr. Lancaster described is a situation where lenders are in effect making educational decisions for students, to wit, the fact that if you cannot afford it, the lenders will prevent you from going to Stanford in your freshman year. Wait until you get a free year at a public institution first, then we will lend you the money to go to Stanford. That lends a direct impact on the career of the student and flies in the face of everything these programs are supposed to do in terms of letting a student, with or without the cooperation of the family and institution, decide what the best educational pattern should be, and more importantly, let him or her decide which institution to go to. If they unwisely select an expensive school for their freshman year, so be it. If the banks are going to be able to operate in that fashion with respect to who they are going to lend money to and who not, we cannot honestly say everybody in this country has access to the loan.

Mr. LANCASTER. Mr. Ford, are you guaranteed that you can go to your bank, that you can go and get a car financed tomorrow?

Mr. FORD. No; but the Federal Government has already decided economics should not be a barrier to any person seeking education in this country. That is a matter of public policy decided by this and preceding Congresses over and over again and by every President we have had since Harry Truman.

Mr. LANCASTER. You stated that the banks were making the educational decision. I also stated that under the new program we have changed our policies.

Mr. FORD. That is the decision you made as a banker which has the effect of making a decision for someone seeking an education. That troubles me.

Thank you very much for your testimony and for a very fine exchange.

[Whereupon, at 1:25 p.m., the committee was adjourned, to reconvene upon the call of the Chair.]

[Material submitted for inclusion in the record follow:]

A Not-for-Profit Corporation Serving Education
United Student Aid Funds
Executive Office: 200 East 42nd Street • New York, New York 10017 • (212) 661-0900

May 23, 1979

Mr. Tom Wolanin
Staff Director
Subcommittee on Postsecondary Education
619 House Office Building Annex 1
Washington, D.C. 20515

Dear Mr. Tom Wolanin:

It is my understanding that the Subcommittee on Postsecondary Education of the House Committee on Education and Labor will be holding hearings soon on the reauthorization of the Guaranteed Student Loan Program. In this connection, you may find of interest the enclosed paper prepared by United Student Aid Funds. It is our response to some of the points made by Secretary Califano in his testimony before the Subcommittee on March 20, 1979. We hope it might be possible for it to be included in the record of the hearings.

United Student Aid Funds has not asked to testify at the forthcoming hearings because our viewpoint will be presented by the National Council of Higher Education Loan Programs to which we belong. If, however, you should wish to call upon us to testify, we will be glad to respond.

Sincerely,

Charles W V Meares

CWV:fr
Enclosure

Charles W.V. Meares
Chairman of the Board

Copy to Subcommittee members

Horace H. Wilson, Honorary Chairman, Retired Senior Vice President, Equitable Life Assurance Society • Executive Committee: Charles W. V. Meares, Chairman, Retired Chairman, New York Life Insurance Company • J. Wilmer Mirandon, President and Chief Executive, United Student Aid Funds, Inc. • John R. Benbow, Chairman, Barnett Bank of Miami • Stanley T. Crossland, Retired Vice President, Texaco Inc. • Norris Darrell, Jr., Partner, Sullivan & Cromwell • Ralph P. Davidson, Publisher, Time, Inc. • William J. Flynn, President, National Health & Welfare Retirement Association, Inc. • William E. Keiser, Sr. Vice President, New York Life Insurance Company • James R. Kennedy, Retired Vice Chairman, Celanese Corporation • Herbert E. Longenecker, Former President, Tulane University • Harvey Mole, United States Steel & Carnegie Pension Fund • Donald C. Platten, Chairman, Chemical Bank

GOVERNMENT SUBSIDIES TO THE GUARANTEED STUDENT LOAN PROGRAM

In his testimony on March 20, 1979 before the Subcommittee on Post-secondary Education of the House Committee on Education and Labor, HEW Secretary Califano expressed serious concern about the cost to the Federal Government of its support and subsidization of the Guaranteed Student Loan Program. He pointed out that defaults, while greatly publicized, are not nearly as costly as the other government subsidies and that it was the latter that was worrying him. He seemed to acknowledge that the present program is very effective in getting loans to students - perhaps too effective from his standpoint, as he envisages the possibility that the program may quadruple in volume in the next few years. Obviously, if this were to happen, government subsidy costs would rise proportionately.

Before we all join in Secretary Califano's hand-wringing over this prospect, it may be timely to review the origin and development of the Guaranteed Student Loan Program. How did it come about and what is it trying to accomplish?

Not so many years ago, students who wanted to undertake post-secondary education were almost entirely dependent on their parents' ability to pay the costs. Even though college costs were much lower in those days, this dependence on parental support meant that, by and large, post-secondary education was confined to the children of middle- and upper-income families. Some scholarship aid was available to help low-income families but it was quite limited and generally benefited only very gifted students. State supported schools, of course, also enabled some low-income families' children to get a college education but, even so, the American dream of equal educational opportunity for all was still far from being realized.

A growing awareness of the short-comings of this situation brought about over the years an increase in scholarship aid and grants to students and in

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Federal aid to the colleges and universities. These changes made it a little bit easier for more students to continue their education through the college level but it was not until Sputnik in 1957 that the American people woke up to the fact that our technological development was possibly being hindered by the comparatively small percentage of our children who were pursuing higher learning. Since that time it has been a cornerstone of our public policy that every ambitious child, regardless of background, who wants to go to college should have the right to do so. It has also been accepted that in America this would be done, not on a socialized, nationalized free school basis, but by the traditional private system of people paying their own way to the extent possible and the government lending its financial support to both the students and the schools. As a result, our college population has grown from about 28% of the 18 to 21 year olds in 1955, to about 50% in 1979.

Unfortunately, this growth has occurred during a period of high inflation which has caused college tuition costs to go up by leaps and bounds. Today, even the parent in the modest upper-income brackets is finding it increasingly difficult to meet these costs by himself, particularly if he has more than one child in college. The middle- or lower-income parent finds it impossible, although the latter may be better situated than the former because more outside aid is available. Even parental debt doesn't provide the answer to most families because there is a definite limit to the amount that can be borrowed and repaid in a reasonable period of time. In consequence, more and more families have found it necessary to resort to student loans.

Student loans are strictly in keeping with the strong American tradition of people paying their own way to the extent possible. There is no reason why students should not bear part of the cost of educations which will benefit them personally instead of letting it all fall on their parents or the government. Parents should do their part, government should do its part, but students also should do their part. The growth of the Guaranteed Student Loan Program means that in more and more cases the financial responsibility is being parcelled out in these three ways.

Under the Higher Education Act of 1965 and its several subsequent amendments, the maximum amount a student can borrow for undergraduate study in any one academic year is $2,500, with an overall maximum of $7,500 for the 4 years of undergraduate work. With tuition costs at the present levels (as high as $6,000 to $7,000 per year in some colleges) it is obvious that even if a student borrows the maximum the parents still have a substantial responsibility. The student from a low-income family must take advantage of every bit of financial aid available (scholarships, government grants, part-time work, summer work, etc.) to meet the present high costs.

Thus, student loans have become accepted in America as an essential part of financing higher education. They are as American as apple pie. It becomes a question then as to whether students should be expected to pay the full cost of such loans or whether they should be subsidized. In non-inflationary times, with interest at a very modest level, one might argue reasonably that the borrowers who get the benefit of the loans should pay their full cost. It is much more difficult to support this argument when interest rates are at double-digit levels and likely to remain there for some time. The power of interest is awesome and, when the rate of interest is high, can be very frightening to borrowers. For example, when interest is at 12% per annum, if a student borrowed $2,500 at the beginning of his freshman year, allowed the interest to pile up until one year after he graduated and then repaid the debt over a 10-year period, he would wind up repaying 120 monthly installments of $63.21 each, or a total of $7,585! And that would be just for his freshman year! (By way of comparison, the corresponding figures under the present Federally subsidized student loan program would be 120 monthly payments of $29.03 each, or a total of $3,484. So the student would save $4,101 and yet the subsidies would have cost the government only $2,200.)

It doesn't seem practical, therefore, to ask students to pay the full cost of the loans. This has been the philosophy underlying the present program ever since it was first enacted by Congress in 1965. The current rate charged to students is 7%, with the government paying a fluctuating supplement (currently at an annual rate of about 5%) to the lender and also picking up the entire interest tab while the student is in school. The latter benefit to students was enacted in recognition of the fact that while in school, the student doesn't have the wherewithal to make even interest-only payments and to demand such payments only triggers delinquencies and defaults; to defer the interest overburdens the student with debt.

The present program represents a nice balance between the students, on the one hand, repaying their full debt with some interest on it, and the government, on the other hand, helping them to do so by keeping their interest cost low. Under this system, the students have a feeling of self-reliance and standing on their own feet without the debt burden becoming too great for them. Shifting the entire burden to the student would probably promote delinquencies and defaults and would appear to students to be an abdication of government's previously assumed responsibility to encourage and foster higher education. Going in the other direction and having the government pick up the full tab would seem to be out of step with the American tradition of individual independence and would undoubtedly result in too much governmental interference with the educational process. Thus, the present system seems to be a very satisfactory middle ground between these two extremes.

As to the costs of the present interest subsidies to students and special allowances to lenders, they are high today mainly because inflation and monetary policy have put interest rates at an abnormally high level. For example, when market interest rates cause the student loan gross interest rate to rise to 12%, the government subsidies for the average undergraduate student loan add up to about $540 for the 9-10 year life of a $1,000 loan. By way of contrast, if the gross interest rate for student loans were to drop to 8% per annum, the government's subsidy costs would decline to about $285. The latter seems a very reasonable share for government but, in any case, it is unthinkable that the higher costs that result from higher interest rates should be shifted to the student. We must not permit the ability of students to pursue higher education to become equated with the fluctuation of interest rates. When interest rates are high, government and the general taxpayers are better able to shoulder the additional burden than the student borrowers.

Similarly, we should not delude ourselves that eliminating the private lenders from the program and establishing a centralized student loan Federal bank would save the taxpayers money. The direct subsidies might disappear but other costs would take their place. Money costs the Federal Government just about what it costs bankers. Administrative costs are no less to the Federal Government than they are to anyone else. If Mr. Califano's suggestion of a Federal student loan bank is intended to save taxpayers money, than the students are going to have to pay through the nose for their loans. If it turns out that a Federal bank is also to be subsidized in order to avoid putting too much of a burden on the students, then the subsidies will likely be very little different from what they are today.

Furthermore, there is no reason to believe that a return to a centralized Federal program wouldn't lead to a return to the abuses and defaults associated with the old Federal programs: FISL and NDSL. The recent improvement in default rates in these programs, resulting from a massive albeit belated effort to remind borrowers that they should be repaying their legitimate debts, may well be only a temporary, passing phenomenon. HEW's claim that they have reduced the default rate to 10% from something over 18% is based on the somewhat flimsy fact that about half of those in default have finally been persuaded to pay something off their debts. Whether they will in fact keep up the payments and repay in full remains to be seen - and it will be years before we find that out. If we were to apply the new Federal default formula to the loans made and guaranteed by the states and the private agencies, we would find that they still enjoy a default rate of less than one-half the Federal rate.

There is nothing in our experience to indicate that a direct Federal program won't always tempt students to take advantage of it. As soon as the Federal Government becomes the direct lender or the direct guarantor, the borrowing student who is financially hard pressed is apt to think: "The government doesn't need the money as much as I do - it should have helped me more with my education, anyway." Whether we like it or not, this is a fairly common reaction, so it is far better to keep the Federal role in the background. It ought to provide support but it is a big mistake for it to try to do the job itself.

To sum up, the following conclusions seem to emerge:

1. Student loans are a very necessary part of the financing of higher education. The fact that they are growing is something to be applauded, not deplored.

2. Government subsidies, both for in-school interest and special allowances to lenders, are necessary to keep the cost of student loans down to a level that students can afford. These subsidies are costly today because of high interest rates; over the years, with a return to more normal interest rates, they should average a good deal less. In any case, we would drive out student loans and drive out many students from higher education if we tried to avoid the subsidies by having students pay the full cost of their loans. This would be true regardless of whether the loans are made by private lenders

or a centralized Federal student loan bank.

3. Passing the lending responsibility over to the Federal Government and the schools would only result in a reintroduction of the abuses, inefficiencies, defaults, etc. associated with the FISL and NDSL programs. There would be no savings to taxpayers; on the contrary, a return to the old default rates might cost them a good deal of money.

In case there is some thought in government that the present subsidies are enabling private lenders to reap considerable profits, it should be remembered that such profits are taxable, which means that about one-half is returned to the government in income taxes. So perhaps the subsidies don't cost the government as much as Mr. Califano thinks. One thing is certain: the present program is working well, the localization of the student loan program through the state and private agencies and hometown lenders is resulting in a much lower default rate and, all in all, the Congressional intent of the 1976 Amendments to the Higher Education Act is being well fulfilled. The primary purpose of the 1976 Amendments was not to save money. Rather it was to spend government money more intelligently to better achieve the basic purpose of the student loan program: higher education for all responsible students who have the desire and willingness to pursue it. The amendments have worked and we now have a program that represents a happy combination of government and private sector activity, and that divides the financial responsibility for higher education equitably among parents, students and government. Why disturb it?

United Student Aid Funds
April 11, 1979

Attachment 1.

COST OF STUDENT LOANS PER $1,000 BORROWED

Case 1. Freshman class borrower. In-school and grace periods cover 5 years. Borrower repays over a 10-year period.

	Cost to Gov't (excluding any tax pay'ts to gov't by lenders)		Cost to Student
	8% int.	12% int.	
In-school and grace period subsidy for 5 yrs. (int. subsidy to student and spec. allowance to lender)	$400.00	$600.00	
Subsidy during 10-year repayment period (spec. allowance to lender)	55.71	278.55	
Total	$455.71	$878.55	
Repay'ts by student over 10-year period (7% interest)			$1,393.20*

———— o ————

* Without any government subsidy, and with student allowing interest to accumulate during in-school and grace periods, student would have to repay:

	@ 8% int.	@ 12% int.
	$2,138.40	$3,033.60
Less present cost to student	1,393.20	1,393.20
Add'l cost to student	$ 745.20	$1,640.40

Thus, if the interest rate throughout the life of the loan were 8% per annum, the government subsidy payments of $455.71 would save the student $745.20. If the interest rate throughout were 12%, the government subsidy of $878.55 would save the student $1,640.40. So, for every $1.00 the government spends in subsidies, the student is being saved between $1.64 and $1.87!

Attachment 2.

COST OF STUDENT LOANS PER $1,000 BORROWED

Case 2. Senior class borrower. In-school and grace periods cover 2 years. Borrower repays over a 10-year period.

	Cost to Gov't (excluding any tax pay'ts to gov't by lenders)		Cost to Student
	8% int.	12% int.	
In-school and grace period subsidy for 2 yrs. (int. subsidy to student and spec. allowance to lender)	$160.00	$240.00	
Subsidy during 10-year repayment period (spec. allowance to lender)	55.71	278.55	
Total	$215.71	$518.55	
Repay'ts by student over 10-year period (7% interest)			$1,393.20*

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* Without any government subsidy, and with student allowing interest to accumulate during in-school and grace periods, student would have to repay over 10-years:

	@ 8% int.	@ 12% int.
	$1,698.00	$2,160.00
Less present cost to student	1,393.20	1,393.20
Add'l cost to student	$ 304.80	$ 766.80

Thus, if the interest rate throughout the life of the loan were 8% per annum, the government subsidy payments of $215.71 would save the student $304.80. If the interest rate throughout were 12%, the government subsidy of $518.55 would save the student $766.80. So, for every $1.00 the government spends in subsidies, the student is being saved between $1.41 and $1.48!

STATE OF CALIFORNIA EDMUND G. BROWN JR., Governor
CALIFORNIA STUDENT AID COMMISSION
1410 FIFTH STREET
SACRAMENTO 95814 (916)445-0880

June 13, 1979

JUN 1 9 [illegible]

Congressman William D. Ford
Chairman
Postsecondary Education Committee
House Education and Labor Committee
2238 Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Ford:

I have been told that there was a discussion in your reauthorization hearing the other day about the extent of the Guaranteed Student Loan Program in California. I have been told there were comments about the minimal participation of California lenders in the program and California was given as an example of a state where the program is not working.

It is quite true that California lenders have diminished their participation in the Federally Insured Student Loan Program in recent years. For example, in FY 1972 some 125.3 million dollars were loaned. In FY 1978, some 67.3 million were loaned. In addition to cutting down the total dollar volume by virtue of either withdrawing from the program or reducing allocations, lenders have introduced restricitions in terms of a maximum loan and the kind of students to whom loans will be made. It is fair to say that the lending community in California became disenchanted with the Office of Education administration and did withdraw substantially from the Loan Program.

We feel that there is every reason to be assured that participation in 1979-80 will be greatly increased over prior years. As you may know, the new California Guaranteed Student Loan Program has started for first-time loan applicants and the Office of Education will continue making loans to students who participated previously. Over a period of time, the federal guarantee program will, hence, be phased out and all loans will be guaranteed through the California Student Aid Commission.

The lending community has responded with measured speed, but very positively, from the change in management to the Student Aid Commission. Some lenders which had withdrawn from the program have now come back in. All the major lenders in the state have signed participation agreements with us and have increased their fund allocations, liberalized the amount they will loan, and broadened the categories of students to whom they will make loans. While there are still improvements to be made, it seems clear to me that we have made great and substantial progress in making the Guaranteed Student Loan Program available to California students. We anticipate a loan volume of well over 100 million this coming year.

Our position is that there should not be precipitous changes in the Guaranteed Loan Program at this time and certainly not until there has been an opportunity to evaluate its effectiveness under state administration.

Sincerely,

Arthur S Marmaduke

Arthur S. Marmaduke
Director

cc: Mr. Tom Wolanin

Massachusetts
HIGHER EDUCATION ASSISTANCE
CORPORATION

1010 Park Square Building, Boston, Massachusetts 02116 (617) 426-9434

Helge Holst, *President* Edward R. Tufts, *Treasurer* Judith Allen, *Vice President*

Warren Wilkinson, *Clerk* Adeline A. Chella, *Assistant Treasurer*

June 1, 1979

DIRECTORS

[illegible]

The Honorable William D. Ford, Chairman
Subcommittee on Postsecondary Education
U.S. House of Representatives
2368 Rayburn House Office Building
Washington, D.C. 20515

Subject: Strength of The Guaranteed Student Loan Program

Dear Congressman Ford,

At yesterday's testimony you and Committee members asked a number of questions which were not readily and adequately handled by the witnesses because few of them had comprehensive experience in all aspects of the Guaranteed Student Loan Program (GSLP). Accordingly the National Council of Higher Education Loan Programs (NCHELP) will assemble for you the data available from its members which is as relevant as possible. In the meanwhile, in order to give you a prompt reply to the unanswered questions, the following is a summary of Massachusetts experience which we believe to be reasonably representative of the condition in other states.

1. Lender Participation

It was repeatedly questioned whether lenders participating in the GSLP can be counted upon to meet the demand for educational loan assistance, particularly if this demand increases greatly or if there should be a marked down turn in the yield from this type of lending. In Massachusetts the growth of the GSLP has been continuous, without any decreases over the past 23 years. This has been true even in such troublesome times as 1974-75. You will note that in more recent years, in response to the incentives of 1976 and the improved Special Allowance formula, participation has markedly accelerated. This is a result of successful lender recruitment and also response to intensified and improved procedures and services on the part of our agency. For this purpose we maintain close relationship with participating lenders of the state and with the regional Office of Education. This is certainly more readily achieved by decentralized, local administration than by national centralized operation. Our experience can be seen in the enclosed Annual Report may be summarized as follows:

Year	Value of Loans	% Increase	Number of Loans	% Increase
1974	$35,597,041		24,968	
1975	$39,667,088	11.14	26,667	6.80
1976	$43,476,497	9.60	28,578	7.17
1977	$58,154,622	33.76	35,076	22.74
1978	$86,293,941	48.4	46,184	31.7

As I mentioned to you, lender participation is by no means solely due to altruism or a sense of social responsibility. It arises from pressure on the lenders by deapositors who put a high value on educating their children, from recognition by lenders that their own operations are enhanced by improvements in their communities, and the hope of a substantial conversion from student borrower to permanent depositor and customer of the lender. In addition, in the last few years the Community Reinvestment Act, both federal and state equivalents, have required that lenders serve their communities not only as depositories but as sources of credit for the lower income community. Unless such service can be shown banks are denied opportunities for new branches, changes of name, changes of headquarter location, and the like. Loans to students under our HELP program are specifically recognized by the Bank Commissioner as an expected and accepted form of community reinvestment service.

The foregoing might perhaps most simply be summarized by saying that in Massachusetts in 1978 there was active lending under the GSLP by 96.57% of the commercial banks, 82.53% of the mutual savings banks, and lesser but still a substantial percentage of other types of lenders in the state.

2. Extent of Loan Availability

The extent to which loans are available may be judged in a variety of ways. Most readily recognized would be the value and number of loans actually produced. In our state in 1978 these were $86,293,941 in value and 46,184 in number. It is further indicated by the fact that the HELP program was able to produce a loan in response to every request for assistance which came to us by all means of communication. This means through requests for assistance from high school guidance counselors, college financial aid officers, parents, legislators, individual students and others by letter or telephone. All requests were affirmatively answered. Since there is extensive communication with high schools, financial aid administrators, schools, and the mass media, we believe there is reasonably widespread knowledge of our program and that requests of students or parents directed to the usual sources of aid information, including lenders, does result in the production of loans. Despite the success of present methods we are about to engage, jointly with the Secretary for Educational Affairs and other agencies involved in aid administration, in more definite promotion of the use of financial aid than in the past.

3. Achievement of Access and Choice

In the light of the above success of the HELP program in Massachusetts and, we believe, in other comparable states, it is our opinion that the GSLP has produced access and freedom of choice to an astonishing degree. As you know, in his testimony, Secretary Califano, on page 10, after describing the operations of the combined aid programs, concludes: "Thus, the goals of access and, to a great degree, choice have been achieved for many students."

It is very doubtful if a centralized National Student Loan Bank could have any where nearly the extent of local branches, with local representation within the reach and comprehension of parents, students and schools throughout the country, which exists and can be made to exist even further by a well established decentralized locally administered GSLP. Consequently we believe that the GSLP system, if fully supported and implemented, will assure far greater access and choice than any other mechanism.

4. Loan Recipients By Family Income

It was repeatedly questioned whether lender participation is such that disadvantaged and low income applicants really have access to student loans. This is a valid question. It might well be expected that loans are much more readily available to applicants from families which have relations with lenders - banks, credit unions, etc. In contrast applicants with no prior connection, or no significant deposits with lenders, would not in fact be able to secure loans. Happily experience demonstrates lender willingness to make GSLP loans for the reasons mentioned above as well as the fact that they are fully guaranteed and are producing a reasonable yield. In our experience, over a considerable number of years, the following has been the distribution of GSLP recipients by family income:

Less than $ 1,000	5.4%
$ 1,000 - 3,000	8.4%
3,000 - 5,000	9.2%
5,000 - 7,000	10.8%
7,000 - 9,000	12.1%
9,000 - 12,000	18.7%
12,000 - 15,000	16.6%
15,000 or over	18.8%

We believe this experience to be quite representative of loan production in other states having an effective guarantee agency and GSLP program. It completely denies nonavailability of GSLP loans to the disadvantaged or low income. As you will note, families having adjusted gross incomes of less than $7,000 per year received one-third of all loans. We believe that this proportion is as low as it is primarily because the majority of families of students seeking higher education receive incomes above the $7,000 level.

5. Need for Relevant Income Data

As was pointed out in the hearings, the prohibition on obtaining family income data legislated by the Middle Income Student Assistance Act will prevent the above type of analyses. In fact it blinds the administration of loans with regard to the need of applicants being served. We do not believe this to be wise or necessary. The fact that income cannot be used to deny interest subsidy is no reason for withholding information as to family income. Note we emphasize income rather than assets. In dealing with assets recognition must be given to the fact that the most common assets - homes and cars - cause expense rather than produce income. Likewise determining the extent of contribution to be made by a family out of its assets involves complications and calculations which may well be avoided in the interest of simplicity. However disclosure of income, without assets, poses no such problems and when it is clear that income level plays no part in determining eligibility for interest subsidy there would appear to be no reason why income should not be disclosed, and many valid reasons why this information is desirable.

6. Adequacy of Loan Funds

It was questioned whether, if demand for loans should greatly increase, the lenders of the country have the means and would provide the required loan capital.

In Massachusetts we maintain close relations with our lenders and they participate actively in our Board and Advisory Committees. While successfully meeting present requests for GSLPs, published data as well as first hand information, indicates that only approximately ½ of 1% of loanable funds is being devoted to HELP loans. A doubling of demand would therefore require only 1% or slightly more of loanable funds. Our lenders have assured us that they could readily meet such an increase in demand. Moreover sale to the Student Loan Marketing Association (SLMA), or borrowing from SLMA, could serve to reduce such increases in demand upon lender resources.

We believe that a national demand for GSLPs in the $3 to $4 billion range would put no strain on the resources of private lenders or meet any substantial resistance as long as GSLP administration is sensibly and adequately conducted. Figures of the magnitude would be only 1% or 1½% of present consumer lending.

As stated above, we are obtaining information from other states in the effort to provide a comprehensive answer for use by your Committee. NCHELP is pleased to participate in such two-way development of sound legislation and to assist in its administration.

Sincerely,

Helge Holst

Helge Holst
President

HH/bf
Encs.

STATE OF CALIFORNIA
EDMUND G. BROWN JR., Governor
CALIFORNIA STUDENT AID COMMISSION
1410 FIFTH STREET
SACRAMENTO 95814 (916)445-0880

June 13, 1979

Congressman William D. Ford
Chairman
Postsecondary Education Committee
House Education and Labor Committee
2238 Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Ford:

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Sincerely,

Arthur S Marmaduke

Arthur S. Marmaduke
Director

cc: Mr. Tom Wolanin

national council of higher education loan programs NCHELP

June 29, 1979

The Honorable William D. Ford, Chairman
United States House of Representatives
Subcommittee on Postsecondary Education
2368 Rayburn House Office Building
Washington, D.C. 20515

Subject: NCHELP Interim Comprehensive Response
GSLP Lender Support By States

Dear Congressman Ford,

In answer to questions asked at testimony before the Subcommittee on Postsecondary Education on May 30-31, 1979 we gave you an immediate answer on June 1, 1979 based on Massachusetts experience. At that time we promised you a more comprehensive response when we were able to question the members of our Council. In order not to delay longer this more representative reply we herewith send you a compilation which represents the experience of 24 states and USAF. Further information, or a more complete compilation, will be supplied when the remaining data is available.

Although in information from all states is not wholly uniform, you will observe that in the jurisdictions in which the GSLP is administered by a local agency which maintains close relations with lenders the program is very successful in meeting demand for student loans. The data summarized relates to FY 80. In many instances the replies to us indicate substantial continuing growth. In Massachusetts the program for the first five months of 1979 is double that of the comparable period in 1978. Nowhere is there any indication that demand will exceed the ability or willingness of lenders to meet the need. This is summarized in the last column of data under "Adequate Funds".

Also of interest is the indication from those states which have analyzed their loans in this way that borrowing is available to applicants regardless of low family income. This has always been a surprise since such applicants might be expected to meet their needs by grants, scholarships and other free assistance. Likewise, it might be thought that such applicants would not have access to lenders with whom the families maintained no accounts or significant balances. Accordingly we feel confident in stating that the GSLP, as locally administered, does provide assistance to the disadvantaged and independent students.

President
HELGE HOLST
Mass. Higher Education Assist. Corp.
1010 Park Square Bldg.
Boston, Massachusetts 02116

President Elect
DOUGLAS R. SEIPELT
Ohio Student Loan Commission
50 W. Broad St., 8th Floor
Columbus, Ohio 43215

Treasurer
WILLIAM M. MACKIE, JR.
South Carolina Student
Loan Corporation
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800 Dutch Square Boulevard
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PAUL BORDEN
Kentucky Higher Education
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691 Teton Trail
Frankfort, Kentucky 40601

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Florida Dept. of Education
Knott Bldg., Rm. 583
Tallahassee, Fla. 32304

As was demonstrated in the presentation made by the Pennsylvania agency on June 11, 1979 on behalf of itself and other members of the Council, the effective assistance provided by the GSLP guarantors is no accident. It is the result of continuous and productive recruitment of lenders, the development of operating procedures by the guarantors for their programs which receive the cooperation of lenders, schools and relevant state and other authorities. An effective network of this type of support is not quickly or easily created and certainly would not exist for many years under a centralized National Student Loan Bank. In the opinion of local administrators no centralized agency could achieve the close and direct operating relationships which are required to make a program of this magnitude productive without waste and unjustified losses.

As indicated before, NCHELP will be pleased to work with you in providing data or in assisting in analyzing or testing suggestions for sound improvement.

Sincerely,

Helge Holst

Helge Holst
President

HH/bf
Enc.

GUARANTEED STUDENT LOAN PROGRAM SUPPORT BY STATES
FY '80

State	Value of Loans (million)	Number of Loans	Lenders	% Potential	Advertised	Meet Demands		Choices		Adequate Funds	
						Yes	No	Yes	No	Yes	No
Alabama	No GSLP - FISL inadequate			14	no		x		x		x
Alaska	See USAF										
Arkansas	4.652	3,169	165	60	yes	x		x		x	
Colorado	11.527				no						
Delaware	See USAF										
Georgia	15.628	10,910	395	80	yes	x		x		x	
Indiana	15.363	8,863	318	NA	no	NA		x		NA	
Kansas	24.117	14,006	331	46	yes	x		x		x	
Kentucky	15		166	50	yes	x		x		x	
Maine (USAF)	8.560	6,270	200	70	yes	x		x		x	
Massachusetts	81.061	43,368	420	90	yes	x		x		x	
Maryland (USAF)	14.192	8,291	123	90	yes	x		x		x	
Michigan	61.834	34,471	437	43	yes	x		x			
Minnesota	62.986	36,194	468	61	yes	x		x		x	
New Hampshire	6.982	4,332	102	85	yes			x			
New Jersey	113.021	57,987	353	82	yes	x		x		x	
Nevada	See USAF										
Ohio	67.460	34,581	646	70	yes	x		x		x	
Oklahoma	7.514	6,398	266	61	no	x		x		x	
Pennsylvania	208.426	106,956	533	80	yes	x		x		x	
Rhode Island	9.878	7,207	24	50	no	x		x		x	
South Carolina	3.0	3,000	statewide source	100	yes	x		x		x	

GUARANTEED STUDENT LOAN PROGRAM SUPPORT BY STATES

State	Value of Loans (million)	Number of Loans	Lenders	% Potential	Advertised	Meet Demands		Choices		Adequate Funds	
						Yes	No	Yes	No	Yes	No
Tennessee	17.0	8,500	238	39	yes	x		x		x	
Utah	See USAF										
USAF (includes own program plus Alaska, Delaware, Indiana, Maine, Maryland, Nevada, and Utah)	51.374	30,314	275		yes	x		x		x	
Vermont	6.108	4,370	116	98	yes	x		x		x	

GUARANTEED STUDENT LOAN PROGRAM SUPPORT BY STATES
FY '80

RECIPIENTS BY INCOME

State	Less Than $3,000	$3,000 - $4,999	$5,000 - $6,999	$7,000 - $8,999	$ 9,000 - $11,999	$12,000 - $14,999	$15,000 or over
Georgia	25%	14%	14%	12%	15%	10%	10%
Maine (USAF)	24%	11%	10%	6%	9%	16%	24%
Massachusetts	14%	9%	11%	12%	19%	16%	19%
Maryland (USAF)	13%	12%	11%	6%	11%	20%	27%
Michigan	30%	6%	5%	4%	6%	8%	41%
New Hampshire	13%	8%	8%	8%	13%	13%	37%
New Jersey	7%	4%	4%	5%	9%	11%	60%
Ohio		17% ($0 - $5,000)		16% ($5,000-$9,000)		20% ($9,000-$15,000)	47%
Pennsylvania	15%	12%	7%	7%	11%	14%	34%
South Carolina	12%	8%	7%	9%	16%	15%	32%
USAF	20%	12%	7%	4%	9%	12%	36%
Vermont	16%	12%	6%	7%	14%	13%	32%

REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

TUESDAY, JUNE 5, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 304, Cannon House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Peyser, Weiss, Buchanan, Tauke and Ratchford.

Staff present: Thomas R. Wolanin, staff director; Patricia F. Rissler, deputy staff director; William C. Clohan, minority education counsel; and Jennifer W. Vance, minority legislative associate.

Mr. Peyser [presiding]. The Subcommittee on Postsecondary Education will come to order for the purpose of continuing hearings on the Reauthorization of the Higher Education Act and Related Measures.

Today's hearing will continue our consideration of the student financial assistance programs authorized by title IV of the Higher Education Act.

In our two hearings last week, we began consideration of the student loan programs—the guaranteed student loan program and the national direct student loan program. Our hearing this morning will continue and conclude that topic.

Our witnesses this morning will include Members of Congress, representatives of the Student Loan Marketing Association, and representatives of associations of postsecondary institutions.

Our chairman, Mr. Ford, will be joining us shortly, but in the interest of moving ahead with the hearings and allowing the proper time, we are going to start the hearings off, and the first speaker this morning is going to be the Honorable Neal Smith, a Member of Congress from Iowa, who we are delighted to have appear before our committee. He certainly has expressed great interest in this area in the past, and we welcome him and would like him to start in at this time. As you know, your prepared text will be entered in the record. If you wish to speak from it, fine, or however you would like to proceed.

STATEMENT OF HON. NEAL SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. SMITH. Mr. Chairman, I think it would be quicker if I just speak from the record, because it is only four pages, and I might discourse a little longer than that if I tried to summarize it.

I do appreciate appearing before the subcommittee.

The ability of parents to finance the increasing cost of post high school education for their children has been seriously eroded by the higher tuition costs and a higher cost of living for students. Costs of providing higher education have increased so much that college administrators are finding it necessary to increase tuition rates even more each year, and it appears living costs will not stabilize; therefore, there is sure to be a continuing great need for a simplified, practical and effective loan program to supplement other forms of support.

For many years, including years which I served on this committee, I have introduced bills and urged support of legislation which would, in effect, establish a very substantial student aid loan bank. To some extent, it would be like a greatly enlarged NDEA student loan program but would contain some important differences including no interest on amounts paid until due and an alternate repayment schedule geared to income. I might mention when I served on this committee the full committee adopted this one day. Ribicoff was the Secretary of HEW at the time. It wasn't their plan and for some reason they went to work and in a couple of days they got two votes to switch. That is how close it came in 1961 to becoming a part of the Higher Education Act. This year, the bill number is H.R. 750.

I believe that every student at a college or training institute is entitled to receive an interest-free loan to the extent he or she needs it to secure needed training or an education and that there should be a method of repayment available which will not cause hardship during the years of repayment or result in graduates being delinquent in payments through no fault of their own.

That approach has not been tried under either the NDEA or guaranteed loan program. The guaranteed loan program depends upon banks to make the student loans carrying substantial rates of interest and to be repaid on a rigid schedule. The Budget Bureau simply cannot resist the temptation to depend upon this program as the principal source for student aid. During the first years, a small amount appears in the current year's budget as the cost for operating the program but over a period of years the cost of this program is substantially greater for both the Government and the student than it would be if loans were made directly.

We are also finding that banks simply are not suitable institutions for making student loans. In fact, many have either never participated or have quit or limit loans to children of good customers who need the loans the least. There is no way to make the bank guaranteed loan compare favorably with direct loans for students.

To start with, bankers have told me that from a competitive standpoint they really need a minimum of 16 percent interest rate on these loans. They can buy Government securities on a day-to-day basis with 24-hour liquidation privileges that pay more than 9 percent, and they can be purchased in a few minutes by one officer of the bank in sums totaling millions of dollars, depending upon the surplus available for this purpose on that day. Student loans require a vast amount of time to service. By the time repayment is made, the student probably does not live in the same community. Even with a secondary market, more of their money would be idle during transfer periods than with the Government bonds, and there are probably as many negatives as positives from the public relations standpoint. Not only does it work less efficiently, cost more for the Government and is more complicated, but it also results in greater cost and trouble to the student receiving the loan. In addition to all these problems, loans simply are not available in some communities while they are in other communities.

The plain fact of the matter is that this program is not working satisfactorily, and there is really no substitute for having a substantial direct loan program which is available and fair to all students and graduates without regard to the major course of study pursued.

Under my proposal, loans would be interest-free. The net effect of this would be to provide what amounts to about a 25-to-50 percent scholarship. Although many people feel it is unfair for the Federal Government to loan thousands of dollars to some students who happen to go to college, it is really an investment because they will, upon graduation, earn more money and should, therefore, pay more income taxes. The value of the loan approach is also shown by the fact that this year $411 million in money that was loaned in previous years under the NDEA program will be repaid and will be reloaned a second time. On the average, the former students who repaid this money this year are receiving a salary which is enough greater than they would have received had they not secured the advanced education, so that they are also far ahead even after using some of the increase to repay the loan.

While on an average the ability to repay even on a rigid schedule of 10 percent per year, and even when the interest is added is satisfactory, there are individual cases where hardship is incurred by using a rigid repayment schedule, and there are individual cases where students were discouraged from going to college or securing advanced training because they did not want to tie themselves down to a rigid payment schedule. This is especially true with some young women who do not know what years they will want to work while raising a family and have a reluctance to become indebted prior to marriage.

These problems can be answered by providing that, as an alternative, a student can repay at the rate of 5 percent of his or her net taxable income. Whenever they are not working, no repayment is necessary. Since the loan is interest-free, years when they are not working or have too low an income to have paid 10 percent of their total debt will not result in an increase in the debt or being classified as delinquent. Especially in the case of nurses and teachers, we are going to depend heavily upon married women who have partially raised their family and who will not work in several of the years following graduation from college or a training institute.

H.R. 750 would make it much more fair for them and would encourage them to secure the education and training at the proper time in life, even if they do not use it until after their children are raised or in high school. This approach will encourage increased development of great human resources.

Burdensome paperwork would not be required because the borrower would merely file a certificate stating that the amount remitted is at least 5 percent of his or her net taxable income. Under this approach, most of those who have been delinquent under the present NDEA and guaranteed loan approach would be current on repayments and hardship for some others could have been avoided.

I strongly urge the establishment of the student loan bank provided in H.R. 750 as a practical, simple, direct, efficient, and effective way to deal with supplemental student aid on a broad basis which can be sold to the Congress.

Thank you for the opportunity to appear before this subcommittee, upon which I once had the honor to serve and which I still believe has provided some of the most important legislation to the long-term growth and strength of our country.

Thank you.

[H.R. 750 introduced by Cong. Smith appears in the Appendix.]

Mr. **Peyser**. Thank you very much for both the excellent presentation and also for the thought here involved.

There is one question I would like to ask. Have you, Neal, any specific thought in mind of amount, if you were to establish this student aid loan bank, of the kind of dollars we would be——

Mr. **Smith**. I think that would depend upon the demand. This year, there is $411 million available in repayments to NDEA, plus we put in $286 million on top of that. That is $697 million; that is about $700 per student. I would visualize if we had this kind of a program there would be so much demand for it that the demand would probably triple. You would also have less demand—we put $550 million in now for the opportunity grants, and then we have a work study program. We put, I think, $550 million for that.

A good number of those students are not working. It is really bad, too, in a way; for those who have a job it is a great program, but whenever a professor, in order to get a student the money he absolutely needs, has to fraudulently claim he is giving him a job, that is not good for either the student or the professor. We wouldn't need that program.

Mr. **Peyser**. Basically, you see this as a replacement for programs like work study.

Mr. **Smith**. Yes; between the two, anyone that wants to, can go to school. You still have a work study program for those, to the extent colleges can genuinely use their time.

Mr. **Peyser**. Thank you very much.

Mr. Buchanan?

Mr. **Buchanan**. Thank you, Mr. Chairman.

First, I want to state that the gentleman from Iowa is a valued and distinguished friend of education. As much as we regret not having you on this committee, I am glad you are where you are, because funding, as you are aware, is a perpetual problem in trying to devise how we shall assist the students. Inadequate funding seems to force us into too many unfortunate and sometimes draconian choices.

As you are aware, one of the problems we face in all the loan programs is the high default rate. With NDEA, it is right at 18 percent, which is higher than the GSL default rate. There are those who feel that this is true at least in part because of the very low interest rates now on NDSL, so I wonder if the removal of even that would have an adverse impact on incentive to repay.

Mr. SMITH. No, I think, myself, and I believe the Secretary agrees with this—you know he has tried to do something to get these repayments back—and on our committee we are pretty much convinced that a large share of it is due to the rigid 10 percent repayment schedule. See, a student is out here, and 1 year they can't make the payment. Then they miss that payment, and once you miss one payment and nothing happens, you probably miss the rest of them. Then a friend finds out that their friend isn't repaying, so why not do the same thing. I just think that a large share of it is due to the fact we have set up an unrealistic repayment schedule of 10 percent per year for lifetime investment. We don't pay for houses 10 percent a year. This is an investment in their whole future, and I think it is an unrealistic repayment schedule.

The other thing is that the repayment defaults naturally come higher in lower-paid jobs. A student chooses social services as their field. The ability to repay is not nearly as great, although the cost of education is as much as it is in some other field. That is not realistic, either. By having a percentage of their income as the method of repaying, you have taken care of those problems, and I think the delinquency rate would be nil.

Mr. BUCHANAN. I was intrigued that Secretary Califano in his testimony portrayed and gave us examples of how a bank could make 24 percent, 27 percent profit on a student loan, and ABA's representative testified that these really were not profitable loans over against what a bank could otherwise do with the money it is paying to lend.

Mr. SMITH. Bankers I have talked to over the years tell me it is not really a profitable business. They do it in some instances because they think they need to; they have customers who want them to make a loan to their child, or for one reason or another, but I don't believe they are making money on these loans, or that they are really in the right kind of a business because a bank likes to make a loan and get a chattel mortgage on something that is going to stay in the vicinity of the bank, where they can see it every day they want to. They are not going to see the student after he graduates. It is just not the kind of business that a bank is normally in.

Mr. BUCHANAN. Thank you. I appreciate so much your testimony.

Thank you, Mr. Chairman.

Mr. PEYSER. Thank you.

Mr. Ratchford?

Mr. RATCHFORD. Chairman Smith, we appreciate your thoughtful statement. As a former member of this committee, what is your thinking as relates to the current number of programs we have?

Mr. SMITH. I think there are too many.

Mr. RATCHFORD. I agree we have too many, that they overlap and are duplicative and confusing.

Would your legislation add to one of the current seven programs or consolidate them?

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Mr. SMITH. I really think that if we had this program sufficiently funded, you probably wouldn't even need SEOG's at all, because you wouldn't have a limit on the amount per student. They could just get the loan and have the same schedule of repayment, repay the same amount no matter how much the loan is. You would still need a work study program, but it would be much smaller. It would be geared to what the universities can actually find productive work for students, and so you would have less programs.

I agree with you, there are too many programs.

Mr. RATCHFORD. Do you think they can be administered as divisions of one program or that we will still need several separate programs?

Mr. SMITH. I think you could do it as divisions of one program. In fact, the financial aid officers at the colleges handle all the programs, so why shouldn't the department?

I should also mention, of course, you wouldn't need the NDEA program as we have it. This is really a substitute for it. There would be no need for it because this would take care of all the instances where we now have NDEA.

Mr. RATCHFORD. In light of your emphasis on one phase of the loan program, and I appreciate your thinking, which you refer to as the length of repayment, are we allowing an adequate period of time for the student to repay?

Mr. SMITH. I don't think a 10 percent rigid repayment schedule is realistic. Under this, it would be 5 percent of your net taxable income per year. If you have a high income job, you can pay more. If you have a low income job, you may take 20 years to repay it. On average, when I had this calculated one time, and I admit it was several years ago, they said on average the repayment wouldn't be too much different than it is now, 10 or 12 years, but for some students it would lengthen way out and for others it would be less. The ones in high income jobs would pay faster.

Mr. RATCHFORD. Would you set an outer time limit?

Mr. SMITH. No, I wouldn't, because I think there are instances in the cases of nurses and teachers, for example, where they are out of the job market for as much as 15 years, and when they come back in, they start paying back on this investment.

Mr. RATCHFORD. Thank you.

Mr. PEYSER. Mr. Tauke?

Mr. TAUKE. Thank you, Mr. Chairman.

As you gentlemen may know, the distinguished Representative from Iowa is the senior member of our delegation, and his advice and counsel are always appreciated, even on matters that don't relate to education. But with his background in and support of education, it is good to have him appear before the committee and share his views.

First of all, I was interested in your discussion about the interest-free loans. It is indeed a generous loan program, and I wondered in view of that if you thought there should be qualifications to fit into the program? Should any student be able to apply, or should it be based on need or some other criteria?

Mr. SMITH. I would see it working this way, somewhat like it is supposed to work now for NDEA. They get what they are entitled to under BEOG's; they find out how much—the financial aid officer at the college does this—this is administered by the college, and he gets down to where there is a gap; he doesn't have enough money, and that is the amount that is needed, and that is the amount that the loan would be. If he shows need to that extent, that indicates how much the loan should be. Supposedly NDEA is supposed to work like that now.

There are other problems involved, but you would take other programs that come first, if there is a State scholarship program, if there is income in the family, whatever it is. But we are getting more and more to the place now where we have to quit considering the wealth of the parent instead of the ability of the student to secure his own education, because in many cases that excludes students whose parents won't help them even though they could if they wanted to.

Mr. TAUKE. Basically, you think the need should not be a major factor?

Mr. SMITH. Not the major factor.

Mr. TAUKE. It appears to me that there are two separate problems with loans. First, there are some students who need loans because the family simply is unable, or the student is unable, to meet the expenses of education. Second, there are others where it is more of a cash flow problem. I can understand the more generous interest-free attitude, perhaps, toward those who have a need, but I wonder for those who simply have a cash flow problem, if it is appropriate to have interest-free loans?

Mr. SMITH. Well, is it a cash flow problem with the parents or the child? That is the difference. If it is a cash flow problem of the child, or the student, then I take it that they probably wouldn't need the loan as badly or maybe you could say it shouldn't be interest-free. But in most cases when we are talking about cash flow problems, that is because the parents seem to have large net worth, but they don't have the cash flow. And I just think that repayment should be geared to the students' ability to repay after they graduate rather than their parents' ability to repay. It just isn't realistic.

I know of some instances where parents could, if they wanted to, send their child to school. They just won't do it. I know of a couple of parents who just think I didn't go to college, and I am getting along all right, so why should they? I don't think those kinds of students should be captive to their parents' idiosyncrasies.

Mr. TAUKE. I agree with the observation about the 10 percent a year being a problem. That is a very strict and very rigid formula. However, it would appear to me perhaps if we had a flexible or graduated repayment schedule, where students could choose what their repayment schedule would be, or there would be some flexibility in it, maybe then we would have a much better system without going to the interest-free loan.

Mr. SMITH. This system would work if you had a 5 percent interest rate, or if you had interest during some years except when they are not working, but it won't work if you have too high an interest rate, because the people from Yale came to my office, I guess 15 years ago; they spent all afternoon there talking about a program they wanted to try, based basically upon this idea, but they incorporated into their program, I think, a 7 percent interest rate. I told them to start with I didn't think it would ever work, and it didn't, and that is the reason.

Mr. **Tauke**. Why does an interest rate not work? I have been out of law school for 5 years; I don't think there is any reason why I should have interest-free loans at this point. But under your program I could still be enjoying the benefit of interest-free loans.

Mr. **Smith**. You wouldn't long, because with your background and salary you would pay this back in a couple of years. But the 7 percent, you take somebody that is out of the job market for 10 years, you have added 70 percent onto their debt, and I just think you get a very high interest rate, and it makes it not be a workable program. And I think that we have arrived at the time—under BEOG's we are giving them as a grant, $2,444 million in fiscal 1980. We don't have a loan program as big as the grant program .

Mr. **Tauke**. One more question: If you had this kind of a generous loan program, you estimate it would probably increase the amount of loans by three times?

Mr. **Smith**. I think so.

Mr. **Tauke**. What would this do to tuition cost? Would it not tend to cause them to increase since more money would be available?

Mr. **Smith**. It would take some of the pressure off the universities. As it is now, they are under pressure not to increase tuition cost, but they can't help it. They have to, anyway. I admit it probably would make it a little easier to increase tuition than now, but I think they are going to have to increase tution, anyway.

Mr. **Tauke**. Thank you, Mr. Chairman.

Mr. **Peyser**. Thank you.

Mr. Weiss?

Mr. **Weiss**. Thank you, Mr. Chairman. I want to compliment the gentleman for taking us back to the basic reason for having legislation, loan programs, grant programs, which is to provide help for students rather than to provide additional schemes for people who are in the business of lending money. And the only question I have, really, is I wonder if you have had occasion to think through what the administrative cost would be of this kind of a program?

Mr. **Smith**. I see the administrative cost as being identical to what it is for NDEA, and you abolish that program. You administer it exactly the same way. Under the bill the money is provided to financial aid sections of universities. They make the loans just as they do now. They collect the loans; they put 10 percent up, just the same as it is now under NDEA.

Mr. **Weiss**. Thank you.

Thank you, Mr. Chairman.

Mr. **Peyser**. Thank you very much for the testimony, Mr. Smith.

Our next witness is the distinguished member from New Jersey, Mr. Maguire, and we are delighted to have you here to testify. As I indicated to Congressman Smith, we would be pleased and will have your testimony in the record complete, and if you care to summarize or highlight your testimony, whichever you would prefer to do, we are delighted to have you with us.

Mr. **Maguire**. Thank you very much, Mr. Chairman, members of the subcommittee. I have already tried to summarize. I have a 32-page written statement with accompanying tables, and that, of course, I will submit for the record.

Mr. **Peyser**. Without objection, that will become part of the record.

[Prepared testimony of Congressman Maguire follows:]

Written testimony of Congressman Andrew Maguire before the Subcommittee on Postsecondary Education of the House Education and Labor Committee

June 5, 1979

Given soaring college costs and current budget constraints on grants and other direct Federal assistance, students and parents will increasingly depend on privately-funded GSLs to help finance college educations. Our middle-income constituents have delivered the message that college expenses far outstrip their ability to pay, catching them in a crushing cost squeeze. The situation is even worse for families with more than one child in college. It can be worse still for those farther down the income line or independent students who try to combine school with self-supporting work. These people's complaints are not due — as some have alleged — to "seventies selfishness." According to a study released this month by the American Council on Education (ACE), while the average after-tax income of families with college-age children rose 67% between 1967 and 1976, tuition and fees rose much faster over the same period — by 105% at private universities; by 113% at public four-year colleges;

by 165% at two-year community colleges; and by about 96% for all public and private colleges combined.

The Fair Access to Higher Education Act will bridge this widening gap between grants, family resources, and college costs by making more private funds for GSLs available. It will make GSLs easier to repay as well as more possible to obtain. It will provide students and parents of all income levels greater assurance that loan funds will be there, if loans are needed after other forms of aid have been invoked. It will avoid another no-win fight over tuition tax credits for college by making good the promise of last year's Middle Income Student Assistance Act. MISAA declared all college students eligible for government-backed loans, but did nothing to increase loan availability or any student's chance of getting a loan.

Among other ways, the Fair Access to Higher Education Act will accomplish these results by removing designed-in barriers to finding and repaying GSLs. It will give students and private lenders the option of:

- flexible repayment, based on the student's actual income after he or she leaves school, rather than a rigid schedule;
- systematic repayment services, operated by U.S. Internal Revenue or State loan agencies, which remove any reason for lenders to deny loans to so-called "high-risk" students — minorities, freshmen, those from out-of-state, or attending half-time, or from families without longstanding account

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relationships -- in other words, it will increase the likelihood of a student getting a GSL, while reducing the cost to the banks;

- loan consolidation, to ease the burden of multiple monthly payments to different lenders where several GSLs and National Student Loans (NDSLs) have been taken out; and
- a centralized lender referral system, which allows school financial aid officers to coordinate all types of assistance and relieves students of the present need to trot from bank to bank until a loan is received.

The act will also raise the annual and lifetime GSL limits on a graduated basis.

A student's college education is his second most expensive lifetime purchase. Only a home will cost that student more. But houses are paid for over 30 years, and home mortgaging permits a variety of ways — including deferred principal, refinancing, and variable interest — by which such reduced monthly payments can be further matched to the borrower's means. Under the current GSL program a student must essentially repay his education loan in equal monthly installments over a period of ten years after he leaves school. That is true despite the fact that he may have $20,000 or more in accumulated debts, and despite the fact that his monthly income the first year out of school will be far less than in, say, the seventh year, when he is settled in his career. Right now, a student who leaves school with $10,000 in GSL debt will repay $1,394 the first year, whether his gross income is $7,000 or several times $7,000. Yet a single student earning $7,000 takes home only about $5,800 after taxes.

This kind of repayment schedule makes no sense. It contributes to the program's high default rates, since ex-students earning modest salaries their first years out may have no choice but to default. It forces students and families to scrimp and scrounge — and perhaps avoid initially low paying careers in public service, including politics. And it betrays the GSL program's original promise — that qualified students, especially mid-income students, need not worry about the economics of attending their chosen college because the government will smooth the way.

In sharp contrast, under the Fair Access Act a student who borrows the same $10,000 in GSLs, starts work at $10,000, and chooses to take advantage of the Act's income-based repayment, will not pay $1,394 until about the sixth year out of school when he can better bear such payments without strain. Of course, to retire the loan he will pay more than this GSL amount in later years. But the same principle — that payments should be matched to growing ability to repay — will hold true then. Moreover, under this Act that student will repay 90% of the present value of his loan obligation within 15 years. And most loans — even those to former-students whose earnings fall near the bottom of the income ladder — will be fully repaid in under 20 years.

This Act recognizes that regardless of field of study or work, ex-students' incomes start low but will rise as careers become established. It also recognizes that structured attention must be given to the way student loans are repaid as well as obtained. Through loan consolidation it furnishes students the opportunity for refinancing which has long been available in the housing sphere. By offering students the further option of paying off their loans through regular wage withholding by their employer, it will further reduce annual debt burdens and defaults. By encouraging the States to provide the kinds of loan services they have historically delivered best, it will build on the strengths of the present system, without another series of massive, mandatory changes dictated by the Washington bureaucracy. It follows the Congress' 1976 decision to decentralize loans away from Washington in favor of State responsiveness to local needs. And it is anti-inflationary, since it will not only continue to rely on private loan funds, but will make the GSL program more efficient and reduce the government's costs per loan.

A wide range of interest groups has indicated support for the Fair Access to Higher Education Act. This Act will appeal to college students and their parents because it assures better coordination of grants with loans, makes more lenders and loan money available, and relieves students of heavy debt and procedural burdens. It appeals to colleges and financial aid officers by making needed GSLs more certain to obtain and providing an effective way to "package" loans with other student aid. It will appeal to participating lenders, and encourage new ones to participate, by offering them a choice of ways to reduce loan costs and risks. Finally, it will appeal to the 39 State loan agencies whose efforts are crucial to GSL success. These agencies will be offered expanded roles in loan servicing and delivery — the functions they can perform best for students residing or studying within their States.

Loans are the most sensible and attractive way to bridge the gap between grants, family resources, and college expenses — for assuring qualified students economic access to the school of their choice. The Guaranteed Student Loan Program can help reach this goal without busting the Federal budget, since each dollar of taxpayers' money currently supports up to ten loan dollars in privately-funded GSL aid.

But, private lenders must be willing to make such loans, and students must be able to find willing lenders. Barriers designed into the GSL program have driven many lenders — a group which includes savings and loan institutions, credit unions, insurance companies, and pension funds as well as commercial banks —— to refuse or limit their participation. Because of red tape, loan servicing costs, defaults, and other program constraints, only about 10,000 of the 18,000 eligible lenders actively make guaranteed loans. Moreover, many of these hold down their yearly amount of GSLs and exclude so-called "high-risk" students —— freshmen, half-time or vocational students, out-of-State residents, and those whose families have not maintained a banking relationship.

The result has been State-to-State variation in loan availability, discrimination against certain categories of students, and a program whose promise has not been completely fulfilled. In many States where effective guarantee agencies have built strong links with lenders, almost any student who needs a GSL can get one. In the 11 States without guarantee agencies, or other places where lenders must rely on the cumbersome Washington-based Federally-insured (FISL) part of the program, the chance of getting a needed loan is more ethereal.

This list of program flaws is not new. There is wide agreement that ragged loan availability is one of the issues which must be dealt with this reauthorization year. There is also agreement that the issue list should include:

- excessive debt burdens due to rigid repayment schedules and the lack of any way for students to consolidate multiple obligations,

- government costs due to GSL subsidies and defaults, and

- the complexity of getting, making and servicing GSLs.

What is new is the way people are talking —— seriously talking —— about sweeping away a tested system whose major kinks have been eliminated over the last 15 years. What is new are the proposals for another massive Federal bureaucracy that would directly control all loan from Washington. First came the Tuition Advance Fund Act (TAF), which would have excluded freshmen and half-time students from loan aid, encouraged overborrowing, committed the Federal government to expenditures of up to $10 billion the first year and $85 billion afterwards, and imposed direct limits on tuition and enrollment to control the explosion in college prices it would have caused. Next came Senator Bellmon's National Student Loan Bank bill (NSLB), which would have cost $65 billion to create a self-sustaining Washington loan agency, and would have given the Internal Revenue Service direct power to interpret and enforce education law by collecting defaulted loans. Now the Office of Education is floating the idea of two new loan programs, both of them centralized in Washington, both ultimately capitalized on a direct basis by the Federal Government.

none of these grand schemes to build a loan Versailles takes account of the fact that the present delivery system is generally working well. Both the number of loans made and the loan dollars disbursed by the private sector under this program have increased 10 to 25% each year since 1975, and the number of GSLs estimated for FY 1980 will likely jump from 1.13 million nationwide to at least 1.6 million —— a hefty increase of 71%. None of these sweep-away plans deal with the $7.6 billion in outstanding GSLs —— not to mention the $3 billion in outstanding National Direct Student Loans (NDSLs) —— which will need servicing for the next ten to fifteen years, whatever we change tomorrow. None of them includes a meaningful role for the 39 State guarantee agencies which insure 80% of all loans made and are the program's most important source of competence, creative management, and responsiveness to local needs. And none of them effectively addresses the impact on college tuition or grants of universal entitlement to loans. Common sense and economics tell us that where every college student can get a $2000 loan every year, hard-pressed colleges will raise their price to capture some of that monney. That is especially true in these times of declining enrollment and uncontrollable cost increases due to faculty bargaining and other factors. Common sense and experience also tell us that where every student is entitled to an annual loan, desirable increases in Federal and State grants will be undercut, if not displaced, by that loan money. That is especially likely in view of Proposition 13 and the current Federal/State budget crunch.

Besides these defects —— and there are more —— these proposals would inevitably disrupt the current flow of loan funds, reducing access over the short run. And they would repeal the Higher Education Amendments of 1976, which made a deliberate decision to decentralize GSLs away from the Federal Government due to the State agencies' superior performance.

There is another way of dealing with the real problems in the GSL program — uneven loan availability; heavy burdens on students and their families; defaults and other costs. There is a way to handle these problems without junking a system that has been steadily improved, disrupting loan-based college access, or leaping all the way to universal entitlement. That way is a gradual approach which builds on the strengths of the existing system, and fine-tunes it to deal with identified problems, and avoids radical surgery without better proof the patient is fatally sick. That way is the Fair Access to Higher Education Act of 1979.

The Fair Access Act will strengthen the GSL program by building on the 39 State guarantee agencies and other proven mechanisms for loan delivery in ways that will sharply increase private loan funds — especially loan funds for college students from mid- and lower-income families — without creating more headaches than it cures.

More impostantly, the Act will avoid any grant displacement or upward tuition push by stopping short of entitlement and by limiting loans to a reasonable portion of need-based assistance or attendance costs. It will leave "reasonable" to be defined by the committees responsible for coordinating aid reauthorization as a whole.

- students to consolidate multiple GSLs and NDSLs.

Better yet, the Act will provide these benefits at little or no extra cost to the government per loan. According to recent analyses, its provision to accrue and compound the 7% in-school interest payments will likely save the government between $13 and $22 million, making available about 100 to 200 million more private dollars in new loans. That provision would also channel more loans to mid- and lower-income students. And there will be efficiency savings as well.

Best of all, the Act will not impose another series of Washington-based regulatory changes like those which have driven lenders away and hurt loan-based college access in the past. Instead it adopts a common-sense approach by creating optional supplements to the GSL program, from which students, lenders and State agencies can choose in accord with their needs.

This Act recognizes that a nationwide program need not —— and probably should not —— mean nationwide uniformity for the diverse postsecondary makeups of our 50 States. It will build on familiary elements of the GSL program, leaving students free to get and repay needed loans more easily, lenders free to minimize loan costs and risks, and State agencies free to respond better to local concerns. It will provide for a program which has been strangling in red tape.

I believe this act to be a greatly improved version of last year's Capital Availability for Higher Education Act, which I co-authored with the late Bill Steiger. CAHE essentially dealt with flexible repayment and use of the Federal tax system to operate and inexpensive risk-free repayment service. The Fair Access Act responds to comments on the earlier bill, further limits the role of the IRS, and goes on to afford lenders and students:

. better access to secondary markets, to further increase loan funds;

. loan refinancing, at the student's election;

. lender referral and loan processing services;

. limited direct loans for needy cases, if referral does not produce a private loan; and

. fairer treatment where students return to school half-time.

The act does not address such broader issues as the quality of the postsecondary education that almost 2 million students will borrow to pay for next year. Nor does it address school tuition refund policies -- a prime cause of defaults by mid-year dropouts. Nor does it address deceptive recruiting by certain universities and proprietary schools. Those issues should be resolved by better HEW audits and stricter institutional eligibility for all Federal funding, but must not be allowed to distort general loan policy. The Act does, however, provide a vehicle for resolving them in this comprehensive reauthorization cycle. And in the loan context its provisions will sharply improve the GSL program -- without the disruption and uncertainty that have accompanied some "improvements" in the past.

SUMMARY OF THE REASONING BEHIND THE MAGUIRE FAIR ACCESS TO HIGHER EDUCATION ACT

1. Why income-based repayment? The Act offers student borrowers the option of repaying their loans on a flexible basis keyed to actual earnings, rather than by straight-line payments which ignore the fact that incomes start low but rise as careers progress. Some people have claimed that income-based repayment is not needed, that student debt burdens are not very heavy, that loans should be repaid stiff and quick like other consumer credit. Apart from the cold-blooded callousness of that approach, plain numbers tell a different story. A single student who emerges with $10,000 in loan debt and starts work at $7000 will owe $1394 the first year under the current program, nearly 25% of his after-tax pay. The New York Times has reported the case of Linda Setlech, who graduated from Columbia in 1977 with a B.A. in English and $10,000 in loan debt, could only get a job as a secretary and was promptly driven into default by monthly payments of $140 against

her $300 take-home wage.

Ms. Setlech's tale is not unique. There are parallel stories in my constituent files, sent in response to last year's Maguire-Steiger GSL bill. The work of Dwight Horch of the Educational Testing Service has fully documented the debt burdens which overhang graduate and professional students as a result of rigid loan repayment schedules --- burdens which can be even more severe for community-college and B.A. borrowers.

These situations are tailor-made for defaults. And even where defaults do not occur, their potential for forcing students into careers that may not serve society best --- into plastic surgery instead of community medicine, or corporate law instead of public-interest work, college teaching, or politics --- threatens to destroy the value of the educational access GSLs are supposed to support. As the Rev. Timothy Healy, President of Georgetown University, recently noted, present GSL repayment may even be unconstitutional, since it can work to deny poorer students the chance to accept relatively low-paying but high-entry jobs like university research assistantships or Supreme Court clerkships.

Such rigid GSL repayment makes no financial or social sense. A student should at least have the option of matching repayment to income so he can pursue his chosen career or do some public-service work, without being forced to maximize earnings as soon as he leaves school. Next to a house, a college education is the second most expensive purchase he will make in his life. Houses are not financed like consumer purchases of cars or vacuum cleaners. Post-secondary education should not be treated that way either.

Besides, if debt burdens are no problem, what is the cause of the universal plea for loan consolidation to relieve them?

2. Why use of the IRS? The Act makes available, as a supplement to the present program, a Federal repayment service operated on a fee basis through the Federal tax system. Lenders could elect this service for conventional 10-year repayment, and students could elect it for income-based repayment, taking further advantage of monthly withholding to meet their annual loan obligation if they desire. In either case students would repay their loans by a supplemental schedule and one-line entry on their yearly tax returns, and the service would pay out regular monthly amounts to lenders from a fund replenished by pay-ins. Cases of non-payment or underpayment would be bounced back to USOE or the insuring State agency. Unlike some proposals to treat defaults as delinquent taxes, the IRS would neither interpret nor enforce education law.

Some concern has been expressed that despite its apparent simplicity IRS involvement would further complicate the GSL system, that IRS is not a good locator or collector for non-tax purposes, and that it might prove counterproductive.

It is important to make two distinctions here. First, IRS is merely the mechanism for income-based repayment, not the be-all and end-all. If you are going to have meaningful flexibility in repayment, repayment must be based on actual earnings — not "average income profiles" which multiply inequities the more the borrower's actual income diverges from the mean. And if repayment is based on actual earnings, it makes sense to piggyback on a system which efficiently determines earnings each year, rather than trying to duplicate that system from scratch. This is not to say the IRS is essential to income-based repayment or that the Act is wedded to the IRS. It is to say that the IRS provides a time-tested, efficient way to implement such repayment at minimal cost — and that we should be willing to consider any alternative which meets those tests.

Second, the Fair Access Act actually provides that alternative by encouraging State guarantee agencies to operate their own repayment services. The State agencies already have solid relations with postsecondary institutions and participating lenders. These entities know how to deal with each other and have mastered the relevant procedures, without having to become familiar with a new bureaucracy. Under the Act lenders could elect to use the State repayment service instead of the Federal service. Even if lenders chose the Federal route, students would have the final option of using the State service for either conventional or income-based repayment. The IRS's basic efficiencies would be preserved by authorizing State services to have appropriate access to necessary Federal location or income data. Under current law both the Federal (FISL) part of the GSL program, and schools making National Direct Student Loans (NDSL's), can get such IRS information for repayment purposes, but it is denied to guarantee agencies which account for over 80% of GSLs. That is an anomaly which should be corrected in any event.

The Act thus offers students and lenders a choice of repayment services, in accord with its general philosophy that loan delivery is best served by letting participants select the most suitable option instead of jamming them into the same mold. If — as some observers suggest — most lenders and students will prefer State-run repayment to the IRS, this Act provides a non-disruptive way for those preferences to be expressed. If — as others believe — there will be significant demand for the Federally-run service once it is set up, the repayment business can flow that way, without regard to myths and nervous fears. The fact remains that under either service loan availability will sharply increase, since lenders will be assured regular repayments regardless of whether particular students default.

Beyond these points, suggestions that the IRS should not or cannot effectively be used for non-tax loan purposes will just not wash. IRS is an extremely effective locator where current data based on this month's withholding –– rather than year-old tax returns –– are used. The non-tax dike has long been breached, most notably in the case of the Parent Locator Service created in 1975 to help States find and collect child-support payments from runaway fathers. That program has been a smashing success; in FY 1978 it collected over $1 billion, at a cost-benefit ratio of over 1 to 3. Several states –– most notably Oregon –– have successfully used tax systems to help collect student loans, by direct offset against refunds or otherwise. A recent GAO report strongly recommended that direct offset against Federal tax refunds be used to collect all obligations owed the government, not just student loans. Two months ago the Veterans' Administration asked Congress for such offsets to help it collect Veterans' Education Assistance Loans (VEALs). And OE's recent effort to develop a simple, uniform grant application centrally relies on disclosure of student and parent tax returns.

Second, this change is consistent with the GSL program's original intent — to promote educational access by giving students and parents *increased liquidity*, not necessarily an outright grant.

Third, the change will not only reduce government GSL costs, but will put GSL's on a businesslike basis — an important factor where the management credibility of the whole program is under fire.

Fourth, it will promote honesty and truth-in-lending. Much debate has been spent on the relative merits of 3% NDSL's versus 7% GSL's in education circles, and Administrations have been trying to do away with 3% loans for years. Yet because the borrower pays no interest for use of loan funds during in-school periods, the *effective* GSL interest rate is often as low as 3.5%. *2/* Adding the in-school subsidy to principal would produce a true 7% rate — still a bargain by any standards.

Fifth, this change would provide students extra protection against the danger that Federal or State grants might be displaced by increased access to loans. The Fair Access Act takes other steps to prevent that danger, including limits designed to hold loans to a reasonable portion of total assistance. Where students are required to pay reasonable amounts for use of loan money, the temptation for governments to rely on loans rather than appropriated grants becomes still less compelling.

Finally, this change would channel more loan funds to the mid- and lower-income students who need them most. Last year's Middle Income Student Assistance Act (MISAA) made all students — not just those from families with gross incomes under $25,000 — eligible for subsidized GSLs. But because of the in-school interest subsidy, students from upper-income families can have 5, 8 or 10 years' loan money at *zero interest*, simply be repaying the principal when their first payments come due. At that interest rate those students will compete heavily for available loan funds. And since their families have the best credit ratings and most substantial account relations with private lenders, they will siphon off a disproportionate share of loans, leaving less real availability for those farther down the income ladder. According to the Congressional Budget Office, one likely effect of MISAA will be to make about 150,000 fewer GSLs available to mid-income students who would otherwise have received them, before the $25,000 income cap was removed.

There is all the difference in the world between being *eligible* for a GSL and actually having loan funds available to receive one. There is no reason why wealthy students should have a free ride at the expense of taxpayers and mid- or lower-income students, merely because they can afford to pay back their loan principal before they have to make interest payments.

The Fair Access Act would reverse this trend by insuring that all borrowers pay reasonable interest for use of their GSL money -- even if they repay the principal the day they leave school. It would also begin to defuse what columnist Ellen Goodman has called the "Grasshopper Syndrome" -- the smoldering resentment felt by parents who have planned and scrimped for their childrens' college educations, yet see Mercedes-buyers getting the lion's share of government-backed aid. Those explosive feelings need to be dealt with. We can start to deal with them here.

APPENDIX

I. Loans Made -- TOTAL GSL PROGRAM, FY 1975-1980
($ in millions; number of loans in 000's)

Disbursements	FY 75	FY 76*	FY 77	FY 78	FY 79 (est)	FY 80** (est.)
Current Year	1,208	1,388	1,470	1,854	2,250	2,250
Cumulative to start of current year	6,825	8,033	9,768	11,238	13,092	15,342
Cumulative to end of current year	8,033	9,768	11,238	13,092	15,342	17,842
Loans in current year (000's)	919	966	941	1,025	1,126	1,143
Average-Size loan ($)	1,314	1,436	1,562	1,809	1,998	2,187

*Five-quarter transition fiscal year, adjusted by 0.80 to reflect annual trends for current years. Total do not add up because cumulative figures are not so adjusted.

**Does not reflect CBO estimate that 1.6 million loans, totalling about $3.5 billion, will likely be made in FY 80 due to the Middle Income Student Assistance Act (MISAA) and normal program growth.

(Source: U.S. Office of Education, Budget Printouts, Dec. 1978, Jan. 1979)

II. GROWTH OF STATE-AGENCY COMPONENT, GSL PROGRAM, FY 1975-1980
($ in millions; number of loans in 000's)

Disbursements	FY 75	FY 76*	FY 77	FY 78	FY 79 (EST.)	FY 80 (Est.)*
Current Year	619	852	1,013	1,437	1,980	2,256
Cumulative to start of current year	3,787	4,406	5,471	6,484	7,921	9,901
Cumulative at end of current year	4,406	5,471	6,484	7,921	9,901	12,157
Loans in current year (000's)	470	606	647	789	983	1,025
Average Size loan ($)	1,317	1,405	1,566	1,821	2,014	2,201
% increase or decrease over prior year						
--$ in loans	—	+37.6	+18.9	+41.9	+37.8	+13.9
--# of loans	—	+28.9	+6.8	+21.9	+24.6	+4.3

*Five-quarter transition fiscal year, adjusted by 0.80 to reflect annual trends for current years.

**Does not reflect CBO estimate of 1.6 million loans totalling about $3.5 billion for FY 1980.

(Source: U.S. Office of Education, Budget Printouts, Dec., 1978, Jan.-Feb. 1979)

III. DECLINE OF FEDERAL (FISL) COMPONENT, GSL PROGRAM, FY 1975-1980
($ in millions; number of loans in 000's)

Disbursements	FY 75	FY 76*	FY 77	FY 78	FY 79 (est)	FY 80 (EST) **
Current year	589	536	457	417	270	244
Cumulative to start of current year	3,038	3,627	4,297	4,754	5,171	5,441
Cumulative at end of current year	3,627	4,297	4,754	5,171	5,441	5,685
Loans in current year (000's)	449	360	294	236	143	118
Average-size loan ($)	1,312	1,489	1,554	1,767	1,888	2,068
% increase or decrease over prior year						
--$ in loans	—	-9.0	-14.7	-8.8	-35.3	-9.6
--# of loans	—	-19.8	[illegible]	-19.7	-39.4	-17.5

*Five-quarter transition fiscal year, adjusted by 0.80 to reflect annual trends for current years.

**Does not reflect CBO estimate of 1.6 million loans totalling about $3.5 billion for FY 1980.

(Source: U.S. Office of Education, Budget Printouts Dec. 1978, Jan.-Feb. 1979).

IV. LEVERAGE FACTORS IN THE GSL PROGRAM, FY 1975-1980: HOW MANY LOAN DOLLARS ARE DELIVERED BY A DOLLAR OF DIRECTLY BUDGETED FEDERAL OPERATING FUNDS.

($ in millions)

	FY 75	FY 76*	FY 77	FY 78	FY 79 (est)	FY 80 (est)**
Total yearly operating costs combined Federal-State program (1) ++	$460.4	555.8	513.4	666.2	951.7	991.7
Cumulative loans outstanding (2)	$5,320	$5,676	6,193	.6,825	7,792	8,889
Leverage Factor (2) ÷ (1)	11.6	10.2	12.1	10.2	8.2	9.0

++Includes annual amounts for interest subsidy, special allowance payments to lenders, default claims, default claims due to death, disability or bankruptcy of student borrower, and administrative cost payments to State agencies.

*15-month fiscal year

**Does not reflect larger CBO estimates for same period.

(Source: U.S. Office of Education, Budget Printouts, 1978-1979)

V. WHERE STUDENT LOAN FUNDS COME FROM -- PERCENT DISTRIBUTION BY TYPE OF PRIVATE LENDER, FEDERAL (FISL) COMPONENT OF THE GSL PROGRAM ONLY, CUMULATIVE THROUGH FY 1978

($ in millions)

Type of Lender	Loan Volume*	Percent of Total
National Bank	$1,795,321	32.0%
State Bank (FDIC)	1,317,782	23.5
Vocational Institutions (as school lender)	667,508	11.9
Direct Student Loan	336,225	6.0
Federal Savings and Loan	274,174	4.9
Academic Institution (as school lender)	264,814	4.8
Federal Credit Union	195,634	3.5
State Bank (non-FDIC)	130,243	2.3
Mutual Savings Bank	124,283	2.2
State Savings and Loan	130,243	2.0
State Credit Union	96,307	1.7
Insurance Company	36,165	0.7
Other	250,407	4.5
Not Coded	289	---
TOTAL	$5,602,963	100%

*Commitments (agreements to lend, not actual disbursements)

NOTE: Figures for State-agency program component not available; above percentages may under- or over-represent particular distributions for the whole program due to different State-agency demographic factors associated with borrowers and lenders. Totals may not add due rounding.

(Source: U.S. Office of Education, Bureau of Student Financial Assistance Data submitted to Hon William Ford, Chmn., Subcommittee on Post-Secondary Ed (Feb 79)

VI. WHO GETS GSL's NOW--PERCENT DISTRIBUTIONS, BENEFITS AND RECIPIENTS, BY INCOME LEVEL AND TYPE OF INSTITUTION ATTENDED, FY 1978 AND ACADEMIC YEAR 1976-1977

INCOME LEVEL---family (dependent student) or student (independent)

	$0-15,000	$15,000-25,000	$25,000+
% of $ benefits	63%	32%	5%

Type of Post-secondary institution attended**

	PUBLIC			PRIVATE			PROPRIETARY
	Univ.	4-year	2-year	Univ.	4-yr.	2-yr.	PROPRIETARY
% of Benefits	26%	19%	5%	5%	25%	2%	19%
% of Recipients	27%	12%	7%	10%	22%	2%	19%

*FY 1978

**AY 76-77

(Source: Congressional Budget Office, *Federal Assistance for Postsecondary Education: Options for Fiscal Year 1979* (May 1978))

VII. REPAYMENT TIMES, REDUCTIONS IN SUBSIDY COSTS, AND NET SAVINGS UNDER FAIR ACCESS TO HIGHER EDUCATION ACT OF 1979, AS COMPARED TO PRESENT GSL PROGRAM AY 1979-1980.

A. TIME FOR DEBT RETIREMENT, BY INCOME CLASS

	Years for complete repayment		
Lifetime income:	LOW	MIDDLE	HIGH
GSL	10	10	10
Fair Access Act	19	13	8

B. Rapidity of Repayment per $1000 borrowed in AY 1979-1980 under Fair Access Act, by present value of ultimate amount repaid, average of all income classes for former college students

Year	Amount paid (pdv)	% of ultimate total
5	$144	23%
10	447	72
15	561	90
20	593	96
**	**	**

C. Effective gross rates of return, GSL and others versus the Fair Access Act

GSL	3.4%
Fair Access Act	6.2%
NDSL	1.0%
TAP (weighted mean)	2.6%

D. Aggregate subsidy costs and savings, AY 79-80, in billions of $

	Participation rate	
	30%	50%
Aggregate loan volume	$4.939	$8.232
Aggregate subsidy cost		
--GSL	2.252	3.754
--Fair Access Act -7% yearly income growth	2.239	3.733
-9% yearly income growth	2.205	3.675
Net yearly savings in subsidy costs over GSL -7% yearly income growth	+.013	+.022
-9% yearly income growth	+.047	+.079

(Source for all subtables: Stephen P. Dresch, *Financial and Behavioral Implications of Federal Student Loan Programs and Proposals*, forthcoming in Tuchman & Whalen, eds., *Subsidies to Higher Education: The Issues* (New York: Praeger); personal correspondence, Dresch to Maguire. Unless otherwise indicated, all subtables assume a 7% yearly income growth and a base of 5.88 million full-time undergraduates.)

VIII. ILLUSTRATIVE REPAYMENT OF $10,00 In GSLs Under the Present GSL Program

YEAR	Total Payment	Balance Due
1	1394	12,550
2	1394	11,156
3	1394	9,762
4	1349	8,368
5	1394	6,974
6	1394	5,580
7	1394	4,186
8	1394	2,792
9	1394	1,398
10	1394	-0-

NOTE: Figures may not add due to rounding

(Source: California Student Aid Commission, California Student Financial Aid Workbook, (1978)

IX. ILLUSTRATIVE TAKE HOME PAY, REPRESENTATIVE STARTING SALARIES OF SINGLE FORMER COLLEGE STUDENTS, CY 1978

Gross Starting Salary	Take-Home Pay*	GSL Payments as %age of take-home pay**
$7,000	$5,880	23.7%
$10,000	$7,920	17.6%
$13,000	$9,840	14.2%

* After deductions for Federal and state taxes and Social Security tax. Table must understate these deductions due to local taxes and subsequent social security tax increases.

** Assumes $10,000 in GSL borrowing, repaid or conventional 10-year basis as illustrated. above.

California Student Financial Aid Workbook, Staff Calculations

X Lender Survey - Mass. 5/78

Under Mass. HEAL, only permanent, legal Massachusetts residents are eligible.

Total institutions surveyed	264	100%
# requiring customer relationship of some significant kind by student/family	188	71.2%
# requiring specific residency (narrower than Mass.)	157	59.5%
# barring freshman and/or half-time students	98	37.1%

FINANCIAL AND BEHAVIORAL IMPLICATIONS OF FEDERAL STUDENT LOAN PROGRAMS AND PROPOSALS

By

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*This paper was prepared for the Office of the Assistant Secretary for Planning and Evaluation, U. S. Department of Health, Education and Welfare (ASPE-HEW), order number SA-79-1986, with support from the National Institute of Independent Colleges and Universities (NIICU). Invaluable substantive and editorial contributions have been made by Anne Jacobson, who has been responsible for this adaptation of an earlier memorandum. Ruth Schultz has prepared the various versions of the manuscript and tables. The author acknowledges the benefit of discussion and correspondence with Rich Wabnick in ASPE-HEW, Ira Burney in the Office of Policy, Planning and Research, Health Care Financing Administration, W. Lewis Hyde of the Connecticut Conference of Independent Colleges, John Phillips and Virginia Fadil of NIICU, John R. Silber of Boston University, U. S. Representative Andrew Maguire, and Richard Boltuck of the University of Chicago (formerly on the staff of Representative Maguire).

For publication in Howard P. Tuckman and Edward L. Whalen, eds., Subsidies to Higher Education: The Issues, New York: Praeger Publishers, Inc., forthcoming December 1979.

May 8, 1979

At the risk of oversimplification, decisions regarding federal student assistance policy can be said to involve two major interrelated issues. First, to what degree should the cost of schooling, in general or for particular classes of students undertaking specific programs of study, be federally subsidized -- either directly through subsidies to the student or indirectly through subsidies to educational institutions? Second, given the residual costs that must be borne by the student, what mechanisms, if any, should the federal government sponsor through which the student or family can meet these costs?

These issues are linked at several levels. For example, to the degree to which sources of financing schooling costs can be made more accessible to the potential student, the justification for federal subsidization may be reduced. Although other justifications for general or targeted subsidies to education might continue to warrant some level of federal subvention, enhancing the individual's capacity to self-finance schooling will, ceteris paribus, reduce the socially desirable degree of subsidization.

Similarly, measures that are designed to enhance the self-financing capabilities of students may themselves involve significant explicit or implicit federal subsidies. As a result, the effective degree of subsidization may greatly exceed the nominal extent of direct public support to students or institutions. Thus, informed policy choice necessitates identifying the trade-offs between the various forms of subsidy.

Finally, the terms of either direct subsidies or self-financing measures confront students and institutions with certain incentives that may lead to changes in educational costs or prices. Thus, for example, a grant program that fully equalized effective costs to all students over all levels of institutional prices would inevitably exert an upward pressure on prices. The unlimited availability of highly subsidized loans would have similar effects.

Although the author has, in previous work, seriously questioned the justification for general subsidization of educational costs (on either equity or efficiency grounds),(1) this paper takes as given the general answer to the first of the above questions: it is assumed that some degree of subsidization of students and institutions has been deemed socially desirable. This analysis compares various loan programs as devices for student self-financing, addressing the following issues:

- implied degrees of loan subsidization,
- consistency of loan amortization with the profile of returns to the borrower's human capital,
- behavioral incentives confronting students, families, and institutions,
- adequacy of capital supply, especially in light of the loan rationing that would almost inevitably be required to counteract behavioral incentives, and

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(1)Stephen P. Dresch, "Equity and Efficiency in Access to Advanced Education: A Reconsideration," Institute for Demographic and Economic Studies, Inc. (New Haven, Conn., October 1977).

- overall efficiency in improving capital market access for human capital investors.

CRITERIA FOR EVALUATING STUDENT LOAN PROPOSALS

Under optimal circumstances, loans could essentially be viewed as a "residual" in educational financing. The actual or potential student confronts certain schooling costs, grant aid, employment opportunities, and access to borrowed funds. On this basis, the student decides whether to attend school, and, conditional on a decision to attend, chooses a type of school, implying schooling costs and grant aid. Decisions are also made concerning the degree of reliance on earnings and the family as sources of schooling funds. The residual is then borrowed.

From this perspective, one of the most important considerations in evaluating loan programs is the effective availability of loan funds. Because students differ in their preferences for more expensive versus less costly schools, in their employment opportunities, in their preferences for work over borrowing as a source of funds for educational financing, and in their access to funds within the family, the residual, or the demand for borrowed funds, will vary substantially across students. Ideally, the capital market would accommodate these very different demands for borrowed funds.

That the terms of access to borrowed funds influence decisions regarding schooling, earnings, and utilization of family resources gives rise to a number of complications. Clearly, the more desirable the borrowing terms, the greater the demand for loans. Two dimensions of loan desirability should be distinguished. First, some loans incorporate greater subsidies, encouraging the student to select higher-cost schooling options and to substitute subsidized loan funds for earnings or family resources. Second, even without a subsidy shifting costs away from the borrowing student, improvement of lending terms may increase the loan desirability and encourage higher rates of investment in schooling and the displacement of other sources of financial support. Consequences of the latter type simply reflect improvements in capital market functioning; those of the first type represent the effects of the subsidy incorporated in the loan.

In general, it can be argued that loans constitute a highly inefficient mechanism for subsidizing schooling. The behavioral effects of loan subsidies, compared with those of direct subsidies not tied to borrowing, tend to reduce the welfare of the actual or potential student. Moreover, the excessive demand for borrowed funds induced by loan subsidies gives rise to loan rationing, which necessarily adversely affects those whose need for these funds is greatest. In contrast, improvements in access to borrowed funds that do not involve subsidies can only increase student welfare and need not be encumbered by arbitrary rationing.

To assess the numerous recent proposals for income-contingent repayment of educational loans, it is necessary to distinguish between loan subsidies and ex post differences between amounts borrowed and repaid by individual students. If at the time of borrowing all income-contingent borrowers share identical expectations of future income and loan repayments, and if loans to the group of borrowing students are unsubsidized, then although some students will in fact experience lower incomes and make correspondingly lower payments, there is no subsidy involved but rather insurance against low incomes. Conversely, even if borrowers as a group are unsubsidized, substantial subsidies to some subgroups at the expense of others may be present, if the various subgroups have very different ex ante income expectations.

The general arguments against loan subsidies apply equally to subsidies to all income-contingent borrowers and to subsidies from one subgroup of income-contingent borrowers to another. However, as with improved access to borrowed funds that does not involve subsidization, improved access to insurance against low income, in the absence of subsidy, will unambiguously improve individual welfare.

In summary, the central criterion by which to evaluate student loan proposals is the degree of improvement in student access to borrowed funds. For subsidized loans, behavioral responses to the subsidy and the ultimate distribution of subsidy benefits become additional criteria.

CHARACTERISTICS OF CURRENT AND PROPOSED STUDENT LOAN PROGRAMS

In developing federal student loan policy, six important issues must be addressed:

1. Degree of subsidization. If the costs of student loans through an efficient private market under optimal (and con-

ceivable) circumstances are taken as the costs of an unsubsidized loan program, to what degree should a federal program subsidize these costs?

2. Source of capital. Three possible sources can be identified: budgeted federal appropriations, off-budget federally-sponsored borrowing through a direct or secondary lending agency, and private capital supply through private markets.

3. Locus of risk bearing. No necessary relationship exists between the capital supplier and the bearer of the risk of nonpayment (through borrower default, bankruptcy or death), because the risk can always be shifted to a third party (such as an insurance company) for some price. For student loans, the federal government is commonly the ultimate risk bearer, generally at no cost to the primary capital supplier.

4. Provision for origination and collection. Historically, these functions have generally been combined. However, given the unique characteristics of the student loan market, other institutional structures might well be more efficient.

5. The terms of borrowing. The important dimensions here include the time profile of debt amortization (the repayment period and the shape of the effective repayment schedule), the degree to which payments will be keyed to the individual's income, the treatment of interest during the schooling period, and the individual's maximum obligation.

6. Rationing criteria and borrowing limitations. The demand for highly subsidized loans can be expected to be extremely large, as students attempt to shift schooling costs to the federal government and as educational institutions increase prices with greatly attenuated financial impacts on students. Thus, mechanisms for rationing access to borrowed funds and limiting levels of borrowing are almost always necessary.

Existing and proposed federal student loan programs differ significantly in each of these dimensions. This paper examines two existing programs,

- the Guaranteed Student Loan (GSL) program and
- the National Direct Student Loan (NDSL) program,

one idealized, unsubsidized "benchmark" program,

- a nonexistent Graduated Payment Loan (GPL) program,

and four legislative proposals,

- Fair Access to Higher Education (FAHE) Act (H.R. 3769, Representative Andrew Maguire), which has replaced
- Capital Availability for Higher Education (CAHE) Act (H.R. 14147, Representative Maguire and the late Representative William Steiger),
- National Student Loan Bank (NSLB) Act (S. 3403, Senator Henry L. Bellmon), and

- Tuition Advance Fund (TAF) Act (H.R. 12268, former Representative Michael J. Harrington, embodying a proposal of Boston University President John R. Silber; companion bill S. 3044 introduced in the Senate by Senators Edward M. Kennedy and John Durkin).

Because the last five program features outlined above effectively determine the degree of subsidy, these dimensions will be briefly described and contrasted. Quantitative estimates of the degree of subsidy implied by each of these programs can then be developed. For ease of comparison, the key provisions of the seven loan programs are outlined in table 1.

In addition to the limitations indicated in the table, the programs further delimit the eligible student population. Of the existing or proposed plans, the GSL program (and by extension the CAHE and FAHE proposals, which build on the existing GSL) is least restrictive, extending eligibility to part-time and noncollegiate students. By allocating appropriations to eligible institutions, the NDSL program effectively restricts eligibility to persons in academic colleges and universities. This restriction is also incorporated in the Bellmon NSLB proposal, which would limit eligibility to five years of undergraduate study (or its part-time equivalent) and eight years of graduate-professional study (or, again, its part-time equivalent). The Harrington TAF proposal is most restrictive, available only to nonfreshmen undergraduates in eligible academic institutions. Institutional eligibility under TAF would be conditional on conformance with ceilings on enrollment and tuition increases. Specifically, undergraduate enrollment could not increase by more than 2 percent in any academic year or by more than a cumulative 10 percent over the level prevailing before the enactment of the legislation, and tuition could not increase faster than the Consumer Price Index, except at public institutions which would be permitted an additional cumulative tuition increase of 10 percent.

ANALYTICAL AND EMPIRICAL FRAMEWORK

The fiscal implications of the various loan programs have been analyzed within the framework of a general model of loan program performance.(2) This model represents the distribution of borrowers over lifetime earnings profiles and requires stipulations of such factors as the duration of repayment deferment, the repayment period and other terms of the loan contract, interest and administrative costs incurred by the lender, and mortality and default experience of the borrowing cohort.

In the empirical analysis, 1976 data on student enrollment and retention in higher education have been assumed to characterize enrollment in academic year 1979-80.(3) Although this assumption lends a downward bias to the results, it is not markedly unrealistic in the context of a very low rate of enrollment growth. To facilitate comparison of the various programs, the analysis is limited to full-time undergraduate students.

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(2)The model was developed in Stephen P. Dresch and Robert D. Goldberg, "Variable Term Loans for Higher Education -- Analytics and Empirics," Annals of Economic and Social Measurement, January 1972.

(3)U. S. Department of Health, Education and Welfare, National Center for Education Statistics, Digest of Education Statistics 1977-78 (Washington, D. C., 1978).

An eligible population of 5.88 million full-time undergraduates is assumed,(4) as well as a stable student population. Because approximately one-half of college entrants complete baccalaureate degrees,(5) the following pattern of attrition has been assumed:

of 100 first year entrants,
75 enter the second year,
60 enter the third year, and
50 enter and complete the fourth year.

This implies that first-year students constitute 35 percent of the total, or 2.063 million, while 65 percent, or 3.817 million, are in their second, third, and fourth years.

The costs of interest subsidies depend critically on the lag from time of borrowing to the initiation of repayment. All of the programs and proposals would permit deferred repayment until the completion of graduate and professional training. Thus, some pattern of persistence in school beyond the baccalaureate level must be stipulated:

of 100 baccalaureate recipients,
50 enter the first year of graduate school,
40 enter the second year of graduate school,
20 enter the third year of graduate school, and
10 enter the fourth year of graduate school.

Note, however, that the present analysis is limited to borrowing during the undergraduate years.

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(4)National Center for Education Statistics, Digest, table 80, p. 82.

(5)National Center for Educaton Statistics, Digest, figure 2, p. 13.

Possible levels of borrowing have been estimated for three cost classes of institutions. Costs, including tuition, fees, room, board, books, supplies, and necessary incidentals have been set at $2,000, $3,000, and $5,000 for academic year 1979-80. Allowing for inflation, these amounts correspond to estimates of average costs for two- and four-year public and four-year private institutions in academic years 1974-75 and 1977-78.(6) The assumed distribution of students over these classes of institutions is as follows:(7)

two-year public (cost class $2,000): 25 percent
four-year public (cost class $3,000): 50 percent
four-year private (cost class $5,000): 25 percent

Net costs to the student will diverge from these gross costs because of grant aid, the receipt of which is dependent primarily on family income. Undergraduates are assumed to be distributed across three family income classes (with 1976 incomes of $12,000, $18,000, and $26,000, or 1979 incomes of $14,700, $22,000, and $32,000), corresponding roughly to the lower quartile, median, and upper quartile incomes of families with children in college.(8) Assumed net costs (gross costs less grant aid) by family income and gross schooling cost categories are indicated in table 2a. On the further assumptions that (a) those students who borrow in fact borrow the full amount of net costs and (b) the proportion borrowing is the same in all income/gross-schooling-cost cells, table 2b indicates the distribution of borrowers over amounts borrowed. For ease of analysis, this distribution is compressed into four annual borrowing categories, with mean annual borrowing of $2,800. The distribution over borrowing categories is necessary for evaluating the TAF program, where the effective repayment rate is dependent on the amount borrowed. For the other programs, where repayment is proportionate to the amount borrowed, the mean borrowing suffices.

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(6)An annual rate of increase in schooling costs of 7 percent was assumed. The 1974-75 and 1977-78 figures are from National Center for Education Statistics, Digest, tables 131 and 132, p. 133.

(7)This distribution is derived from National Center for Education Statistics, Digest, tables 80, 81, and 83, pp. 82-83.

(8)An annual inflation rate of 7 percent was assumed. U. S. Bureau of the Census, Current Population Reports, "School Enrollment -- Social and Economic Characteristics of Students: October 1976," series P-20, no. 319 (Washington, D. C., February 1978).

To permit the analysis of income-contingent repayment provisions, borrowers were distributed over fifteen profiles of income by years after schooling. Unique distributions across the fifteen profiles were used for each of three educational attainment groups: one to three, four, and five or more years of college. These distributions yielded 1979 mean earnings by educational attainment and years after schooling, as indicated in table 3a for 1, 10, 20, and 30 years after schooling. Table 3b compares hypothetical profile means, deflated to 1976 at 7 percent per year, to 1976 Current Population Survey estimates of median earnings for persons 30, 40, and 50 years old.(9) The profiles and profile distributions correspond fairly closely with the observed incomes.

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(9)The actual 1976 estimates are from U. S. Bureau of the Census, Current Population Reports, "Money Income in 1976 of Families and Persons in the United States," series P-60, no. 114 (Washington, D. C., July 1978). These incomes are interpreted as measures of Adjusted Gross Income (AGI). In the analysis of the Bellmon NSLB proposal, Taxable Income (TI) is derived as follows: TI = 0.8 AGI - 3000. For years after 1979, the constant term (-3000) is inflated at the assumed rate of secular income growth.

Three of the fifteen income profiles are approximately representative of the lower quartile, median, and upper quartile of the lifetime income distribution of former college students. Earnings in the first, fifteenth, and thirtieth years after school for each of these profiles in 1979 are indicated in table 3c. This provides a basis for comparing the effects of the various loan programs across income groups.

Assessing the financial implications of the loan programs requires estimates of the various elements of cost. It is assumed throughout that the programs self-insure against mortality losses, and loan repayment revenues are reduced according to age-specific mortality rates. For the income-contingent programs (FAHE, CAHE, NSLB, and TAF), zero default losses are assumed; defaults are assumed to result in the loss of 5 percent of all revenues of the NDSL, GSL, and GPL programs. Administrative costs (origination, collection, and so on) are stipulated in 1979 dollars per $1,000 borrowed and are assumed to be incurred in each year during which an account is active.(10) For the federally-administered programs (GPL, FAHE, CAHE, NSLB, TAF), these annual costs are assumed to be $5 per $1,000 borrowed, or $14 per average ($2,800) borrower per year. Costs of the NDSL program are set at $10 per $1,000 borrowed per active account year, or $28 annually per average borrower. Administrative costs are not explicitly represented for the GSL program, because these costs are borne by the lender out of the gross returns to the loan (student interest plus the federal special allowance).

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(10) These "1979 administrative costs" are assumed to increase over time at the rate of secular income growth.

The major cost element, of course, is the interest cost incurred explicitly or implicitly in financing a loan program. The current approximate level of the interest rate on short-term federal obligations, 8.5 percent, provides a basis for estimating these costs. Because funding at this rate would itself imply a substantial implicit subsidy, funding of NDSL, GPL, NSLB, and TAF is assumed to require an unsubsidized interest rate of 10 percent (approximately equal to the current prime rate).(11) The 8.5-percent federal borrowing rate implies a GSL special allowance of 5 percent, so the GSL program is assumed to be funded at 12 percent (the sum of the student rate of 7 percent (paid by the government over the schooling period) and the special allowance of 5 percent). Correspondingly, FAHE and CAHE are assumed to be funded at 11.5 percent, reflecting the 0.5-percentage-point reduction in the special allowance associated with the option of federal collection. The 8.5-percent federal interest rate implies an interest rate to student borrowers of 9.5 percent under the NSLB proposal.

SUBSIDIES IMPLICIT IN THE LOAN PROGRAMS

Table 4 summarizes the stipulated funding rates, annual administrative costs, and default losses, and presents estimates of the subsidy per $1,000 borrowed that is implied by each of the loan programs and proposals.(12) Because the subsidy inherent in each of the income-contingent proposals (FAHE, CAHE, NSLB, TAF) depends on the rate of secular increase in nominal incomes (the rate at which the 1979 income profiles shift upward over time due to real and inflationary income growth), the subsidy estimates are presented for three rates of nominal growth of income by age: 5, 7, and 9 percent.(13) In each case, administrative costs are assumed to increase over time at the same rate as nominal incomes (at 5, 7, and 9 percent).

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(11) This analysis was completed in late 1978. Under the conditions prevailing in late spring 1979, interest rates of 9.5 and 11 percent would be more realistic. However, the comparative analysis of the various loan programs would not be substantially altered by these changes in the assumed interest rates. Absolute levels of subsidy, of course, would be significantly increased for those programs stipulating fixed interest rates on student loans. (Specifically, this would not be the case for GPL or NSLB, under the terms of which student loan interest rates would vary with credit market conditions.)

The GSL and NDSL programs involve subsidies of $456 and $596, respectively, per $1,000 borrowed. (The subsidy for NDSL will vary between $584 and $611, depending on the rates of growth of secular income and administrative costs.) Substantively, these "loans" can be viewed as consisting of a grant component and a true (unsubsidized) loan component. Thus, a $1,000 NDSL loan involves a grant of $596 and a loan of only $404, while the GSL program combines a grant of $456 with a loan of $544.

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(12)Although the FAHE, CAHE, NSLB, and TAF repayment periods are open-ended, the analysis assumes that payments are made for a maximum of 35 years. This will result in only minor overestimates of implicit subsidies, because the present values of payments made after the thirty-fifth year by relatively low-income participants will be trivial. Administrative costs at that point might well be greater than payments received. For TAF, the subsidy may tend to be underestimated because the analysis does not restrict payments to borrowers whose incomes exceed $5,000. Again, however, the discrepancy should be small, because few borrowers will have incomes below $5,000. Finally, the various income brackets and exclusions in the FAHE, CAHE, and NSLB proposals are assumed to be indexed at the rate of secular income growth.

(13)Variations in the rates of secular nominal income growth will also affect the subsidy implicit in the NDSL program, because administrative costs are assumed to rise over time at this rate. Thus, the NDSL subsidy will rise with increases in the secular income growth rate. For the income-contingent repayment programs, increased payments due to higher incomes will in general be expected to more than outweigh administrative costs, resulting in a negative relationship between the secular income growth rate and the implicit subsidy.

The graduated payment loan (GPL) was designed to insure that the program would be unsubsidized. Payments are stipulated to rise over time at the rate of nominal income growth of the average former student. The cross-sectional average growth rate of income with age during the first 30 years after schooling implied by the projected 1979 income profiles is 2.6 percent; thus, the nominal growth rate of payments under GPL is 7.6 percent, 9.6 percent, or 11.6 percent, under the assumed secular growth rates of 5, 7, and 9 percent. This repayment profile, along with the stipulated 10-percent funding interest rate, $5 (1979) administrative costs per $1,000 borrowed, 5-percent default loss, and age-specific mortality, requires an interest rate to the student borrower of 11.25 percent.

The original Maguire-Steiger CAHE proposal would increase the GSL subsidy by approximately 17 percent, to between $532 and $540 per $1,000 borrowed (depending on the assumed rate of secular income growth). This higher cost would represent almost equally (a) the extension to borrowers of highly subsidized credit over, on average, a longer period, and (b) the failure of the 0.5-point reduction in the special allowance to cover the assumed collection costs. Assuming a 7-percent rate of secular income growth, the first of these effects would increase the implicit GSL subsidy from $456 to approximately $500; the further increase to $535 would result from the excess of federal collection costs over savings through the special allowance reduction. In fact, a special allowance reduction of 1.4 points (a decrease in the effective interest rate from 12 to 10.6 percent) would be required to cut the cost per $1,000 to the $500 implied by changing the time profile of debt amortization but leaving the responsibility of collection to the lender.

Under the Maguire FAHE proposal, the increases in GSL subsidies that would be implied by these features of CAHE would be almost exactly offset by the provision for 7-percent interest, accrued and compounded over the schooling period. Thus, the net effect of a move from GSL to FAHE would be to reduce GSL subsidies by approximately one percent.

The Bellmon NSLB proposal would result in vastly reduced relative levels of subsidy, with an effective grant of between $191 and $217, again depending on the assumed rate of secular income growth. These lower subsidy costs reflect primarily the effect of interest accrual and compounding over the schooling period (in contrast to the GSL, NDSL, and CAHE programs), and secondarily the increase in the student interest rate to 9.5 percent, compared with 7 percent under GSL and CAHE and 3 percent under NDSL.

The Harrington TAF proposal would involve significantly higher subsidies than any of the other programs. Because (a) the repayment rate (2 percent of income) is constant, regardless of the amount borrowed and (b) the present value of the 50-percent surcharge declines rapidly the later it is paid, even when TAF is restricted to nonfreshmen (thus reducing accumulated levels of debt, reducing the average lag from time of borrowing to initiation of repayment, reducing the college noncompletion rate, and raising expected incomes of participants, all of which reduce the subsidy compared with a program available to first year students), the subsidy per $1,000 borrowed would range between $634 and $689. To permit TAF to be compared meaningfully and easily with the other programs, and also in the interest of realism (it would be politically difficult to exclude freshmen), a second set of TAF estimates is presented, including freshmen in the eligible population base. In this case, the grant component of TAF rises to between $707 and $760 per $1,000 borrowed.

Under either variant of TAF, the subsidy varies greatly with the cumulative amount borrowed. Thus, assuming a 7-percent income growth rate, the average borrower of $1,500 annually would receive a subsidy (implicit grant) per $1,000 borrowed only 65 or 70 percent as great as the subsidy received by the average student borrowing $5,000 annually ($502 and $582, exclusive and inclusive of freshmen, compared with $773 and $836).

The subsidy estimates per $1,000 borrowed are translated in table 5 into aggregate subsidy costs under alternative assumptions concerning the participation rate of students in academic year 1979-80. Focusing on the 7-percent secular income growth and 50-percent participation rate assumptions, with $8.2 billion of lending (including freshmen), the aggregate subsidy costs would be zero under GPL, $1.6 billion under NSLB, $3.7 billion under FAHE, $3.8 billion under GSL, $4.4 billion under CAHE, $4.9 billion under NDSL, and $6.0 billion under TAF. Excluding freshmen, the TAF subsidy would fall to $3.5 billion on $5.3 billion of lending.

An important feature differentiating the NSLB and GPL proposals is not revealed in the foregoing. Only these proposals would provide for a floating borrower interest rate keyed to credit market conditions (as reflected in the interest rate at which the program is funded). Thus, the subsidies implicit in the NSLB (and the absence of subsidy in the GPL) are invariant with respect to the funding interest rate, as long as the stipulated differential between the borrower and funding interest rates is maintained. Moreover, if the movements of interest rates and rates of secular income growth are parallel, then the NSLB subsidy will also be constant with respect to the rate of secular income growth. This is not true of the other income-contingent proposals, for which the borrower interest rate is fixed relative to the funding interest rate.

Assuming a fixed funding interest rate, however, these various subsidy estimates are not highly sensitive to the assumed rate of secular income growth (the difference between the highest and lowest estimates for any plan is less than 15 percent, or at most $55 per $1,000 borrowed). Therefore, the subsequent analysis assumes a 7-percent secular income growth rate.

Table 6 compares the costs of the FAHE, CAHE, NSLB, and TAF proposals to the costs of the existing GSL and NDSL programs, conveniently summarizing the essential information contained in the two preceding tables. Clearly, the Bellmon NSLB and Harrington TAF proposals would have almost diametrically opposed effects, with NSLB resulting in an extreme drop in costs while TAF would bring a quantum jump in costs. The original Maguire-Steiger CAHE proposal would result in costs about midway between the GSL and NDSL programs. The Maguire FAHE proposal would significantly alter the terms and conditions of current student lending, without a significant impact on subsidy costs, compared with GSL.

RETURNS AND FINANCIAL PERFORMANCE OVER TIME

An alternative basis for comparing these programs is presented in table 7, which shows the effective gross rates of return by program or proposal. These rates of return are net of mortality and default losses but are not adjusted for administrative costs. The rates of return vary markedly, but only for NSLB and GPL do they approximate the assumed funding rate of 10 percent. Because of interest accrual and compounding during schooling, the rate of return under FAHE (6.2 percent) approaches the nominal 7-percent student interest rate. In contrast, CAHE and GSL, lacking this feature, exhibit rates of return of only 4.3 and 3.4 percent, respectively. The TAF and NDSL rates of 2.6 and 1.0 percent, respectively, represent the lowest observed values.

Tables 8 and 9 compare the financial performance of these programs over time, assuming a participation rate of 50 percent. In table 8, new lending is assumed to increase at an annual rate of 7 percent, equal to the secular rate of income growth. This can be interpreted as the result of a stable student population and participation rate and schooling costs growing at the same rate as nominal incomes.(14) Table 9 assumes a 3.5-percent rate of growth of new lending, thus combining a 7-percent growth rate of costs with an approximate 3.5-percent rate of decline in the student population and participation.

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(14)The assumed equality of the secular income growth rate and the rate of increase of costs is consistent with the characterization of higher education as a labor-intensive, technologically stagnant sector (see William J. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crises," *American Economic Review*, June 1967). Thus, if nominal wages rise in the rest of the economy, wages will have to rise in the technologically stagnant sector if it is to con-

Under NDSL, payments stabilize at 63 percent of new loans (7-percent lending growth) or at 82 percent of new loans (3.5-percent lending growth) after 18 years. With 7-percent lending growth, TAF performance ultimately would fall short of NDSL (payments relative to new loans of between 51 and 58 percent after 43 years), but with 3.5-percent growth of new lending, TAF ultimately would slightly exceed NDSL (payments relative to new loans of between 82 and 89 percent). The performance of the hypothetical unsubsidized program is unmatched, but the NSLB program would stabilize at a payment ratio of 118 percent (7-percent growth) or 180 percent (3.5-percent growth). GSL, FAHE, and CAHE would lie between the TAF and NDSL performances, at the low end, and the NSLB performance at the high end.

The 1979 present value of the expenditure that would ultimately be required to establish an NDSL, NSLB, or TAF revolving fund or to endow a grant program is indicated in table 10, under the alternative 7- and 3.5-percent new lending (grant) growth assumptions, again assuming a 50-percent participation rate. Including freshmen, these costs would be almost 400 percent as high for TAF ($102 billion or $216 billion,

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tinue to obtain workers. If labor is the only input, costs (and prices) in this sector will increase at the rate of secular wage increase. If productivity growth occurs in other sectors, then prices in those sectors will increase at rates equal to the difference between the rates of secular wage increase and of productivity growth. Thus, prices of the technologically stagnant sector's output will rise relative to other prices.

depending on the new lending growth rate) as for NSLB ($27 billion or $58 billion); NDSL would fall between these extremes ($82 billion or $172 billion). The endowed grant program (including freshmen) would cost only about 40 percent more than TAF.

THE FINANCIAL CONSEQUENCES FOR STUDENT BORROWERS

Tables 11 and 12 summarize the implications of the various loan programs for representative borrowers with low, middle, and high lifetime incomes. GPL would greatly extend the loan amortization period and would key repayments to the growth of average borrower incomes. TAF would greatly extend the repayment period only for low income borrowers and those who borrowed large amounts, but by definition would key repayment to the individual's income. FAHE, CAHE, and NSLB would extend the repayment period moderately for low and middle income borrowers, but because of their progressive repayment rate structures, payments relative to income would rise over time.

With the exception of GPL, NSLB, and FAHE, which provide for interest accrual and compounding over the schooling period, effective interest rates paid by borrowers would decline with increases in the lag from time of borrowing to initiation of repayment: interest rates would be lower for those undergraduates who borrowed earlier or who pursued long graduate-professional programs (table 12). Effective interest rates would be invariant with respect to income for NDSL, GSL, GPL, and (for the incomes considered) NSLB and FAHE. Interest rates would decline with increases in income under CAHE because, since the loan would be repaid earlier, the period during which the borrower interest rate was 7 percent would be reduced relative to the schooling period, over which zero interest was charged. With TAF, the effective interest rate would rise with borrower income. However, the TAF effective interest rate would decline with the amount borrowed. Thus, a high income person who had borrowed $5,000 per year for four years and pursued a lengthy professional program would pay an effective interest rate of only 2.2 percent, while a low income person who borrowed only $1,500 per year for four years and then left school would incur interest at an effective rate of 3.6 percent.

Although often used in the literature,(15) effective interest rates can be a deceptive basis for comparing the burden of alternative loan programs. The benefit derived from a loan at an effective interest rate that is less than the unsubsidized market interest rate or individual discount rate is a function not only of the difference between these rates but also of the period during which the loan is outstanding. Thus, a small interest subsidy on a very long term loan might confer greater benefits than a large interest subsidy on a very short term loan.

A more appropriate basis for comparison is provided by the present value of repayments, discounting payments made under alternative programs at a common interest or subjective discount rate. Table 13 presents estimated present values for each of the various programs for low, middle, and high income borrowers under alternative assumptions concerning the lag from time of borrowing to repayment initiation (one, three, and five years). In each case, the payments are discounted at an assumed subjective discount rate of 10 percent and mortality and default are ignored.(16)

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(15)See, for example, Marc Nerlove, "Some Problems in the Use of Income-Contingent Loans for the Finance of Higher Education," *Journal of Political Economy*, February 1975.

The contrast with the effective interest rate comparison is greatest for CAHE. In this program, the interest rate over the repayment period (7 percent) exceeds the interest rate over the schooling (deferral) period (zero). Thus, the longer the duration of the repayment period relative to the schooling period, the higher the effective interest rate. Nonetheless, because the repayment period interest rate is still highly subsidized (compared with the 10-percent discount rate), the present value of repayments declines as the repayment period increases at lower levels of income. Therefore, with a three-year lag from time of borrowing to initiation of repayment, a low income CAHE borrower would make payments with a present value of only $587 per $1,000 initially borrowed, while the high income borrower's payments would have a present value of $669, even though the former would experience the high effective interest rate (5.3 versus 4.1 percent).

There is also a marked difference between the two approaches for FAHE and NSLB. Although effective interest rates to the student under these two programs are invariant with respect to both (a) student lifetime income and (b) the duration of the schooling period (lag from time of borrowing to initiation of repayment), the present value of repayments would rise with increases in income and decline with increases in the lag from time of borrowing to repayment initiation. These movements would reflect changes in the duration of the period over which credit is extended at subsidized rates.

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(16) These estimates ignore mortality and default, although in assessing the cost of the loan, the student should in principle anticipate the probability that he would not survive (choose) to repay it.

Holding the lag from time of borrowing to repayment initiation constant at three years, the present values of repayments of high income borrowers would exceed those of low income borrowers by $116 under FAHE but only by $18 under NSLB. The small difference in the latter case results from the approximation of the 9.5-percent interest rate to the assumed 10-percent discount rate. Under the alternative variants of TAF (different levels of borrowing, inclusive and exclusive of freshmen), the differences in present values across income groups would be between $116 and $133; the differences would be greater (a) inclusive of freshmen and (b) at lower levels of borrowing.

Holding income constant (focusing, for purposes of exposition, on middle income borrowers), with the exception of GPL (where the student interest rate of 11.25 percent exceeds the discount rate of 10 percent), the present values of repayments would decline with increases in the lag from time of borrowing to initiation of repayment. Because of the major discontinuous increase in the interest rate from zero to 7 percent at the end of schooling, this effect would be most pronounced under GSL and CAHE, with the present value declining by $252 (GSL) and $245 (CAHE) with an increase in the payment lag from one to five years. The comparable change under NDSL would be $208 and the decline would range between $120 and $216 under the various TAF alternatives, with higher discrepancies for the cases exclusive of freshmen. Imposing interest over the schooling period, this present value difference would decline to $115 under FAHE and to $17 under NSLB.

Only for TAF (with zero interest throughout and with repayments a constant proportion of income) would the effect of an increase in the schooling period differ substantially across income groups. For both TAF variants and at all levels of borrowing, the benefits of a four-year extension of the schooling period would be approximately $50 greater at high income levels than at low income levels.

Thus, with the exceptions of GPL and NSLB, each of the programs exerts a substantial incentive to prolong the schooling period, providing significantly higher effective subsidies to those who defer initiation of repayment for a longer period.

BEHAVIORAL EFFECTS OF STUDENT LOAN PROGRAMS

As noted earlier, any improvement in the terms of access to borrowed funds will have consequences for student, parental, institutional, and even governmental behavior. Increases in the self-financing capabilities of students will, to a greater or lesser extent,

- encourage potential students to select schooling over other activities,
- encourage students to select higher-cost schooling options and to substitute borrowed funds for their own earnings in the financing of schooling,

- encourage parents to reduce their contributions to their children's schooling,
- encourage institutions to increase student charges (tuition, fees, room, board) and to reduce institutionally-awarded grant aid, and
- encourage governments to reduce grant and other aid to students and institutions.

To the degree to which improvements in the access to borrowed funds simply reflect improved functioning of the capital market as a mechanism for financing human capital investment, these responses represent perfectly legitimate reactions to opportunities and constraints. Rather than biasing behavior, unsubsidized capital market improvements reduce preexisting biases and constraints. Thus, the behavior patterns that would evolve in response to the unsubsidized availability of borrowed funds (for example, through the idealized GPL program) can be viewed as benchmarks with which to compare the behavioral consequences of other programs.

The general availability of loans on GPL terms would indeed encourage reductions in (a) governmental subsidies to students and institutions, and (b) parental contributions to their children's educational costs. The effects on the behavior of actual and potential students and of institutions, however, cannot be unambiguously determined. Holding constant potential governmental and parental support as well as institutional charges and student assistance, improved access to borrowed funds would encourage potential students to invest in schooling. Reduced governmental and parental support to students, however, would operate in the opposite direction. The net effect might be either to increase or to decrease rates of college attendance. Reductions in direct governmental support to institutions would lead to higher student charges and lower levels of institutionally-awarded student aid, effects that would be magnified if student demand (at previously prevailing levels of fees and aid) were higher but would be damped if student demand were lower. It is likely, however, that the net effect would be to increase tuition and fees and to reduce institutional aid to students, at least on average, because improved access to borrowed funds would permit students to finance higher educational costs. Depending on the magnitude of the changes in costs and support, students might increase or decrease their reliance on earnings in financing schooling. However, average student borrowing would certainly increase.

Given the patterns of governmental, parental, institutional, and student behavior that would be established in response to the general availability of unsubsidized loans such as GPL, introduction of any one of the subsidized loans would induce behavior changes that are unambiguous in direction, although of uncertain magnitude. Table 14 indicates the net cost increases to the student for given increases in the gross costs borne by the student, assuming that the increases are met entirely by borrowing under the various programs and that students discount future loan payments to the present at an annual rate of 10 percent.(17)

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(17)See footnote 16.

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The first column shows the incentive to attend a very inexpensive school (one that would cost the student $1,500 per year) that would be confronted by a previous nonstudent. Under GPL the student would, if forced to borrow, repay an amount equal to 111 percent of the cost. NSLB would exert a moderately positive impact, reducing the net cost to 89 percent of the gross costs. The FAHE proposal would exert a more substantial impact, reducing the net cost to 71 percent of the gross cost; the net cost would fall further to 62 percent under GSL, 60 percent under CAHE, and 58 percent under TAF. Finally, NDSL would reduce the net cost to 51 percent of the gross cost.

Incentives for a student to attend higher cost schools are indicated by the second, third, and fourth columns. Under all programs other than TAF, the proportion of any marginal dollar of cost that would be borne by the student remains constant over all levels of cost. Under TAF, however, the student would pay 58 percent of the first $1,500, but only 31 percent of the next $1,000 (increase in cost from $1,500 to $2,500), 24 percent of the next $1,000 (increase from $2,500 to $3,500) and less than 18 percent of the next $1,500 (increase from $3,500 to $5,000). Thus, TAF would strongly encourage attendance at higher cost institutions, with the cost at the margin falling to only 18 cents per dollar.

The same relationship at the margin between gross and net costs will operate to encourage increases in institutional costs and reductions in (a) institutional student aid, (b) parental contributions to schooling, and (c) student reliance on earnings to meet educational costs. Clearly, these effects will be greater under TAF than under any of the other programs, especially in light of the declining marginal relationship between the level of borrowing and the present value of repayment. Thus, for example, a college faces a greater incentive to increase costs from $4,000 to $5,000 than from $1,000 to $2,000, simply because the increased cost to the student of loan repayment will be less than one-half as great in the first case.

Anticipating possible institutional reactions to these extreme, and progressive, institutional incentives, the TAF legislation would attempt to constrain the institutions' capacity to exploit the program by imposing ceilings on tuition and on enrollment. No institution would be permited to increase tuition at a rate greater than the previous year's rate of increase of the Consumer Price Index (CPI). Enrollment could increase by no more than 2 percent annually, up to a cumulative increase of 10 percent over the level prevailing prior to enactment of the legislation.

Although these provisions might be sufficient to constrain institutional tuition increases and attempts to inflate enrollment (for example, through changes in admissions policies), they would not limit institutional reductions in other aid to students. Therefore, the primary effect would be on students from lower income families whose institutional aid would be reduced. Higher income students, receiving little or no aid from the institution, would be protected by the tuition ceiling and hence would only benefit (through receipt of the TAF subsidy). Thus, especially if TAF were viewed as a replacement for other current federal student assistance, it would effectively redistribute that assistance from lower- to higher-income students.

Furthermore, imposition of tuition and enrollment ceilings would almost certainly adversely affect the allocation of resources to and within higher education. First, if wages in academe rise at the same rate as wages in the rest of the economy, and if this rate exceeds the rate of increase of the CPI, then either costs will rise faster than the CPI or educational quality (such as faculty-student ratios) will deteriorate. Thus, the precise formula for controlling tuitions may be inconsistent with the maintenance of institutional quality. Even if a more appropriate formula were adopted, it would implicitly assume constancy in revenue composition. It would therefore be impossible for an institution to compensate for an absolute or relative reduction in philanthropic or governmental support by increasing tuition. Finally, any attempt to improve overall institutional quality or to undertake or expand activities in high-cost areas of instruction would be precluded if these were to be financed through tuition increases.

Second, enrollment ceilings might create severe excess demands for certain types of schools or in particular geographic areas. Although aggregate enrollment nationally may be stable or declining, enrollment in some areas might well be growing, and enrollment ceilings would effectively deny educational opportunities to many individuals. Preventing expansion of those institutions that are most effectively serving student demands would similarly frustrate educational objectives and would protect less desirable institutions from meaningful competition.

Admittedly, the TAF legislation provides for waiver of the tuition and enrollment ceilings by the U. S. Commissioner of Education under circumstances which he considers "vital to the mission and purpose of (the) institution." However, this provision would greatly increase the degree of federal involvement in a sphere of previous institutional autonomy, and the consequences might be vastly different than superficially anticipated, with possibly pervasive federal intervention into the operating decisions of institutions and concomitant federal responsibility for the structure and content of American higher education.

In general, it can be argued that tuition and enrollment ceilings (price and output controls) and attendant provision for bureaucratic intervention into institutional and sectoral affairs could only have adverse consequences: causing general declines in academic quality and protecting those institutions least effective in serving student needs and demands. The alternative of rationing student access to borrowed funds, via needs tests and annual and cumulative borrowing limits, will also have adverse consequences, limiting the educational opportunities of those whose need for access to borrowed funds is greatest. Avoiding these undesirable consequences of direct or indirect rationing of highly subsidized loans represents the strongest argument for moving toward relative unsubsidized student loan programs.

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Table 1. Significant features of current and proposed federal student loan programs

Loan program	Capital supply	Locus of risk bearing	Origination	Collection
NDSL	Federal appropriations, with 10 percent matching by participating colleges and universities.	Federal government	Eligible colleges and universities	Lending institutions, often contracted to financial institutions.
GSL	Private, supplemented by purchase and warehousing by the National Student Loan Marketing Association, using off-budget capital obtained through the Federal Financing Bank.	Federal government, via guarantees of repayment and acquisition of defaulted loans.	Lending institutions	Lending institutions
GPL	Private, without direct or indirect federal participation.	Risks greatly reduced by federal action to allow voluntary waiver of bankruptcy rights, and lender contracting of collection to federal agencies (IRS, SSA)*. Residual risks borne by capital supplier or nongovernmental third party (such as an insurance company).	Financial institutions, educational institutions, and so on.	Private or contracted to federal agency (IRS or SSA), depending on relative costs; permits contracting of only defaulted accounts for federal collection.
FAHE	Identical to GSL	Identical to GSL, but reduced risk by provision for IRS collection and Office of Education (OE) responsibility for defaults.	Identical to GSL	Lending institutions, but lender or borrower can choose federal (IRS, OE) collection, at a cost to the lender of a .5-percentage-point reduction in the special interest allowance.
CAHE	Identical to FAHE	Identical to FAHE	Identical to FAHE	Identical to FAHE
NSLB	Uncertain, multiple sources including federal appropriations and federally guaranteed borrowing.	Risks greatly reduced by treating delinquent payments as delinquent federal taxes, residual risks borne by federal government.	NSLB, possibly using other financial institutions as agents.	NSLB, with IRS collection of delinquent loans.
TAF	Federal appropriations	Federal, but with risk greatly reduced by IRS collection and treatment of delinquent payments as delinquent taxes.	OE	IRS

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*IRS - Internal Revenue Service, SSA - Social Security Administration

Terms	Limitations
Ten year repayment period. Repayment in equal or declining installments (declining if required payment is defined as the pro rata share of principal plus current interest), not keyed to borrower income. Zero interest over the schooling period. Interest fixed at 3 percent over the repayment period.	Need as defined by conventional "needs analysis", wit annual and cumulative maxima of $2,500 and $10,000.
Ten year repayment period. Repayment in equal or declining installments (as for NDSL), not keyed to borrower income. Interest to lenders is 7 percent plus a variable interest allowance (the 91-day Treasury bill rate less 3.5 percentage points, with a minimum of 1 and maximum of 5 percent), implying a gross interest rate of 8 to 12 percent, depending on credit market conditions. Zero interest to the borrower during schooling (when all interest is paid by the federal government), 7-percent interest over the repayment period.	Educational costs, as conven tionally defined, with an annual maximum of $2,500 and cumulative maxima of $7,500 for undergraduate students and $15,000 (combined undergraduate and graduate) for graduate or professional students.
Discretionary to borrower and lender, possibilities include: 20- to 40-year repayment period; repayment keyed to average life-cycle growth of borrower incomes, adjusted for secular growth of nominal incomes by age, not contingent on borrower income; net rate of return to lender is approximately the prime rate, after deducting (a) administrative (origination and collection) costs and (b) mortality and default losses; interest rate to borrower varies with credit market conditions, interest accrual and compounding over the schooling period; repayment based on principal plus accrued interest.	Borrowing limits discretionary to lender, determined primarily by predicted lifetime income.
During schooling, OE pays 7-percent interest to lender, but interest is accrued, compounded, and added to principal for eventual repayment. Repayment based on original borrowing. Otherwise identical to GSL, unless option for federal collection is exercised, with accompanying changes: indefinite repayment period; annual payment of $35 plus 1 percent of Adjusted Gross Income between $8,500 and $18,500, plus 2 percent of income over $18,500, per $1,000 borrowed; interest to lender is reduced by .5 percentage points.	Costs, as for GSL, but gradu ated borrowing limits: first year - $2,000; second year - $2,500; $3,500 thereafter to undergraduate limit of $11,5 Graduate students can borrow up to $5,000 annually with undergraduate-graduate maximum of $18,000.
Identical to FAHE, except that interest during the schooling period is treated as it is under GSL.	Identical to FAHE
Indefinite repayment period. Annual payment of 1 percent of Taxable Income per $1,000 owed (principal plus accrued interest). If tax return is not provided, payment of 1/10 of principal plus accrued interest. Interest to borrower is Treasury bill rate plus 1 percentage point, interest is accrued and compounded if current interest is not paid (such as during schooling).	Cost of attendance
Indefinite repayment period. Annual payment of 2 percent of Adjusted Gross Income, independent of amount borrowed; repayment continues until amount repaid is 1.5 times amount borrowed. Zero interest over schooling and repayment periods. Surcharge of 50 percent of amount borrowed implies an effective interest rate varying inversely with length of repayment period.	Tuition plus $1,000 for livi expenses, up to annual and cumulative maxima of $5,000 and $15,000, limited to undergraduates above the freshman level.

Table 2a. Net schooling costs and distribution of undergraduates by family income and gross schooling cost classes, academic year 1979-80

		Gross schooling cost					
		$2,000		$3,000		$5,000	
Family income	Percent of students	Net cost	Percent of students	Net cost	Percent of students	Net cost	Percent of students
All students	100		25		50		25
Low income	25	$1,200	10	$1,800	10	$3,000	5
Middle income	50	2,000	10	2,600	30	4,000	10
High income	25	2,000	5	3,000	10	5,000	10

Table 2b. Implied distribution of undergraduate borrowers, by annual amount borrowed

Amount borrowed	Percent of participants	Consolidated borrowing categories	Percent of participants
$ 1,200	10	$ 1,500	20
1,800	10		
2,000	15	2,500	45
2,600	30		
3,000	15	3,500	25
4,000	10		
5,000	10	5,000	10
Mean $2,730		Mean $2,800	

Table 3a. Projected 1979 mean incomes by years after schooling and years of college

Years after schooling	Years of college		
	1-3	4	5 or more
1	$10,245	$12,572	$11,592
10	14,852	18,664	19,406
20	19,404	25,058	27,655
30	19,545	26,183	28,639

Table 3b. Relationship of profile means, deflated to 1976, to actual 1976 medians

		Years of college					
Age		1-3		4		5 or more	
Profile	Actual	Profile	Actual	Profile	Actual	Profile	Actual
30	25-34	$12,547	$11,951	$14,133	$13,534	$13,012	$14,627
40	35-44	15,902	15,524	19,587	20,475	20,100	21,898
50	45-54	15,960	16,497	21,370	22,597	23,203	24,825

Table 3c. Projected 1979 cross-section incomes for three representative profiles, by years after schooling

Years after schooling	Lifetime income		
	LOW	MIDDLE	HIGH
1	$ 9,770	$12,650	$15,440
15	14,950	20,350	33,500
30	15,690	22,550	39,950

Source: U.S. Bureau of the Census, Current Population Reports, "Money Income in 1976 of Families and Persons in the United States," series P-60, no. 114 (Washington, D. C., July 1978).

Table 4. Subsidy per $1,000 loaned, for various proposals, academic year 1979-80

Program	Effective funding interest rate, in percent	Assumed annual administrative costs (per $1,000 borrowed)	Assumed default loss, in percent	Subsidy (per $1,000 borrowed) for secular income growth rates of:		
				5 percent	7 percent	9 percent
GSL	12	$ NA**	5	$456	$456	$456
NDSL	10	10	5	584	596	611
GPL	10	5	5	0	0	0
FAHE	11.5	5	0	464	453	446
CAHE	11.5	5	0	540	535	532
NSLB	10	5	0	217	192	191
TAF*	10	5	0			
Excluding first year:						
Annual borrowing-						
$1,500				530	502	477
2,500				652	622	595
3,500				728	698	672
5,000				801	773	748
Weighted mean				689	660	634
Including first year:						
Annual borrowing-						
$1,500				612	582	556
2,500				728	698	671
3,500				796	768	744
5,000				861	836	815
Weighted mean				760	732	707

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*The cumulative amount borrowed is three times the annual borrowing excluding the first year, and four times the annual borrowing including the first year.

**The difference between 10 and 12 percent funding interest rates is equivalent to administrative costs of $7 per $1,000 borrowed per active account year, or $20 per year per average ($2,800) borrower.

Table 5. Aggregate subsidy costs for various programs and participation rates, academic year 1979-80

(Billions of dollars)

	Participation rate (in percent)			
	30	50	70	90
Base of 5.88 million full-time undergraduates:				
Aggregate loan volume	$4.939	$8.232	$11.525	$14.818
Aggregate subsidy cost-				
GSL	2.252	3.754	5.255	6.757
NDSL	2.944	4.906	6.869	8.832
GPL	0	0	0	0
FAHE				
5 percent secular income growth rate	2.292	3.821	5.349	6.877
7 percent secular income growth rate	2.239	3.733	5.226	6.719
9 percent secular income growth rate	2.205	3.675	5.145	6.615
CAHE				
5 percent secular income growth rate	2.668	4.448	6.227	8.006
7 percent secular income growth rate	2.642	4.404	6.165	7.927
9 percent secular income growth rate	2.627	4.379	6.131	7.883
NSLB				
5 percent secular income growth rate	1.072	1.786	2.501	3.216
7 percent secular income growth rate	0.948	1.581	2.213	2.845
9 percent secular income growth rate	0.943	1.572	2.201	2.830
TAF				
5 percent secular income growth rate	3.756	6.260	8.764	11.268
7 percent secular income growth rate	3.615	6.026	8.436	10.847
9 percent secular income growth rate	3.493	5.822	8.151	10.479
Base of 3.817 million nonfreshmen:				
Aggregate loan volume	3.206	5.344	7.481	9.619
Aggregate subsidy cost-				
TAF				
5 percent secular income growth rate	2.211	3.685	5.158	6.632
7 percent secular income growth rate	2.116	3.527	4.938	6.349
9 percent secular income growth rate	2.033	3.388	4.743	6.099

Table 6. Percentage change in cost per $1,000 loaned for various proposals, academic year 1979-80

Proposal	Percent change in cost compared with: NDSL	GSL
NDSL	---	+31
GSL	-23	---
FAHE	-24	-1
CAHE	-10	+17
NSLB	-68	-58
TAF		
Excluding first year	+6	+39
Including first year	+18	+55

Note: All comparisons assume 7-percent rate of secular income growth.

Table 7. Effective gross rates of return by program

(In percent)

Program	Rate of Return
GSL	3.4
NDSL	1.0
GPL	10.6
FAHE	6.2
CAHE	4.3
NSLB	8.6
TAF (including first year)*	
Annual borrowing-	
$1,500	3.1
2,500	2.4
3,500	2.0
5,000	1.7
Weighted mean	2.6

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*The cumulative amount borrowed is four times the annual amount.

Note: These rates of return take into account losses due to mortality and default but are not adjusted for administrative costs. All estimates assume 7-percent rate of secular income growth.

Table 8. Financial performance of loan programs with lending growth of 7 percent, 1979-2030

(Billions of dollars)

	Academic year					
	1979-80	1989-90	1999-00	2009-10	2019-20	2029-30
Years of operation	0	10	20	30	40	50
New lending (including freshmen):	$ 8.232	$ 16.194	$ 31.855	$ 62.662	$123.265	$242.478
GSL Payments	0	9.603	*24.419	48.032	94.485	185.868
(Payment ratio)	(0%)	(59.3%)	(76.7%)	(76.7%)	(76.7%)	(76.7%)
NDSL Payments	0	7.907	*20.106	39.550	77.796	153.038
(Payment ratio)	(0%)	(48.8%)	(63.1%)	(63.1%)	(63.1%)	(63.1%)
GPL Payments	0	5.309	29.249	102.015	*231.318	455.066
(Payment ratio)	(0%)	(33.3%)	(91.8%)	(162.8%)	(187.7%)	(187.7%)
FAHE Payments	0	8.211	24.469	52.203	105.475	*208.686
(Payment ratio)	(0%)	(50.7%)	(76.8%)	(83.3%)	(85.6%)	(86.1%)
CAHE Payments	0	7.780	20.598	43.409	87.131	*172.108
(Payment ratio)	(0%)	(48.0%)	(64.7%)	(69.3%)	(70.7%)	(71.0%)
NSLB Payments	0	10.687	33.230	72.591	146.000	*287.208
(Payment ratio)	(0%)	(66.0%)	(104.3%)	(115.8%)	(118.4%)	(118.4%)
TAF Payments	0	2.682	13.93	31.639	62.734	*123.419
(Payment ratio)	(0%)	(16.6%)	(43.7%)	(50.5%)	(50.9%)	(50.9%)
New lending (excluding freshmen):	5.344	10.512	20.680	40.680	80.024	157.418
TAF Payments	0	2.390	11.069	23.473	46.319	*91.262
(Payment ratio)	(0%)	(14.8%)	(53.5%)	(57.7%)	(58.0%)	(58.0%)

*Program enters mature phase, payments each year thereafter are a constant percentage of new lending.

Note: All estimates assume 7-percent rate of secular income growth and a 50-percent participation rate. Payment ratio is the ratio of loan payments to new loans.

Table 9. Financial performance of loan programs with lending growth of 3.5 percent, 1979-2030

(Billions of dollars)

	Academic year					
	1979-80	1989-90	1999-00	2009-10	2019-20	2029-30
Years of operation	0	10	20	30	40	50
New lending (including freshmen):	$ 8.232	$ 11.612	$ 16.380	$ 23.105	$ 32.592	$ 45.974
GSL Payments	0	8.548	*16.358	23.074	32.548	49.910
(Payment ratio)	(0%)	(73.6%)	(99.9%)	(99.9%)	(99.9%)	(99.9%)
NDSL Payments	0	7.038	*13.460	18.999	26.8	37.802
(Payment ratio)	(0%)	(60.6%)	(82.2%)	(82.2%)	(82.2%)	(82.2%)
GPL Payments	0	4.888	23.100	71.233	*124.508	175.645
(Payment ratio)	(0%)	(42.1%)	(141.0%)	(308.3%)	(382.0%)	(382.0%)
FAHE Payments	0	7.439	17.626	28.681	42.976	*61.567
(Payment ratio)	(0%)	(64.1%)	(107.6%)	(124.1%)	(131.9%)	(133.9%)
CAHE Payments	0	7.020	14.493	23.217	34.408	49.111
(Payment ratio)	(0%)	(60.5%)	(88.5%)	(100.5%)	(105.6%)	(106.8%)
NSLB Payments	0	9.723	23.694	39.634	58.435	*82.429
(Payment ratio)	(0%)	(83.7%)	(144.7%)	(171.5%)	(179.3%)	(179.3%)
TAF Payments	0	2.435	10.844	18.727	26.824	*37.839
(Payment ratio)	(0%)	(21.0%)	(66.2%)	(81.1%)	(82.3%)	(82.3%)
New lending (excluding freshmen):	5.344	7.538	10.633	15.000	31.168	29.846
TAF Payments	0	2.229	8.39	13.201	18.801	*26.519
(Payment ratio)	(0%)	(29.6%)	(78.9%)	(88.0%)	(88.9%)	(88.9%)

*Program enters mature phase, payments each year thereafter are a constant percentage of new lending.

Note: All estimates assume 7-percent rate of secular income growth and a 50-percent participation rate. Payment ratio is the ratio of loan payments to [illegible]

Table 10. Base year present value cost of establishing various programs

(Billions of dollars)

	7-percent new lending growth				3.5-percent new lending growth			
	Year fund reaches maturity	Year 0 present value of endowment required in maturity year	Year 0 present value of prior years' excess of outlays over receipts	Total cost (year 0 present value)	Year fund reaches maturity	Year 0 present value of endowment required in maturity year	Year 0 present value of prior years' excess of outlays over receipts	Total cost (year 0 present value)
Including first year								
Grant (no repayment)	0	$ 301.8	$ NA	$ 301.8	0	$ 139.3	$ NA	$ 139.3
NDSL	18	83.3	88.4	171.7	18	14.6	67.0	81.6
NSLB	43	-8.8	66.9	58.1	43	-6.6	33.5	26.9
TAF	43	50.9	164.9	215.8	43	3.4	98.2	101.6
Excluding first year								
Grant (no repayment)	0	195.9	NA	195.9	0	90.4	NA	90.4
TAF	43	28.5	98.0	126.5	43	2.2	57.9	60.1

Note: All estimates assume a 7-percent rate of secular growth and a 50-percent participation rate.

Table 11. Time profile of debt amortization, by income class

Student lifetime income	Years required for loan repayment			Ratio of last to first year's payment***			Ratio of last to first year's income		
	LOW	MIDDLE	HIGH	LOW	MIDDLE	HIGH	LOW	MIDDLE	HIGH
GSL	10	10	10	1.0	1.0	1.0	2.5	2.6	3.2
NDSL	10	10	10	1.0	1.0	1.0	2.5	2.6	3.2
GPL	30	30	30	14.1	14.1	14.1	11.4	12.7	18.4
FAHE*	19	13	8	6.0	3.5	3.2	5.1	3.1	2.3
CAHE	16	11	7	4.5	2.7	2.7	3.9	2.6	2.0
NSLB	17	12	9	5.3	3.2	2.8	4.3	2.8	2.5
TAF (including first year):**									
Annual borrowing-									
$1,500	17	15	12	4.3	3.8	3.6	4.3	3.8	3.6
2,500	22	19	15	6.2	5.5	5.6	6.2	5.5	5.6
3,500	25	22	18	7.9	6.9	6.9	7.9	6.9	6.9
5,000	30	26	21	10.7	9.0	9.4	10.7	9.0	9.4
TAF (excluding first year):**									
Annual borrowing-									
$1,500	15	13	10	3.6	3.1	2.9	3.6	3.1	2.9
2,500	19	17	14	5.1	4.6	4.5	5.1	4.6	4.5
3,500	22	19	16	6.2	5.5	5.6	6.2	5.5	5.6
5,000	26	23	19	8.1	7.4	7.6	8.1	7.4	7.6

*FAHE estimates assume a three-year lag from time of borrowing to initiation of repayment.

**For TAF, the cumulative amount borrowed is four times (including first year) or three times (excluding first year) the annual amount borrowed.

***For the income-contingent plans, the last year's payment and income refer to the last full year (the year prior to final settlement).

Note: All estimates assume a 7-percent rate of secular income growth.

Table 12. Effective interest rates paid by representative student borrowers

(In percent)

Lag from time of borrowing to initiation of repayment (years)	Student lifetime income								
	LOW			MIDDLE			HIGH		
	1	3	5	1	3	5	1	3	5
GSL	5.8	4.4	3.5	5.8	4.4	3.5	5.8	4.4	3.5
NDSL	2.6	2.0	1.6	2.6	2.0	1.6	2.6	2.0	1.6
GPL	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
FAHE	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
CAHE	6.3	5.3	4.6	6.0	4.7	3.9	5.7	4.1	3.2
NSLB	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
TAF (including first year):*									
Annual borrowing-									
$1,500	3.6	3.1	2.7	4.2	3.5	3.0	5.0	4.0	3.4
2,500	2.8	2.5	2.2	3.2	2.8	2.5	3.9	3.3	2.8
3,500	2.4	2.1	1.9	2.7	2.4	2.2	3.3	2.8	2.5
5,000	2.0	1.8	1.7	2.3	2.1	1.9	2.8	2.5	2.2
TAF (excluding first year):*									
Annual borrowing-									
$1,500	4.2	3.5	3.0	4.9	4.0	3.3	5.8	4.5	3.7
2,500	3.2	2.8	2.5	3.7	3.2	2.7	4.5	3.7	3.1
3,500	2.7	2.4	2.2	3.1	2.7	2.4	3.8	2.3	2.8
5,000	2.3	2.1	1.9	2.7	2.3	2.1	3.2	2.8	2.4

*For TAF, the cumulative amount borrowed is four times (including first year) or three times (excluding first year) the annual amount borrowed.

Note: All estimates assume a 7-percent rate of secular income growth.

Table 13. Present values of repayments by representative student borrowers, per $1,000 loaned, discounted at 10 percent

	Student lifetime income								
	LOW			MIDDLE			HIGH		
Lag from time of borrowing to initiation of repayment (years)	1	3	5	1	3	5	1	3	5
GSL	$ 795	$ 657	$ 543	$ 795	$ 657	$ 543	$ 795	$ 657	$ 543
NDSL	655	541	447	655	541	447	655	541	447
GPL	1,195	1,223	1,251	1,195	1,223	1,251	1,195	1,223	1,251
FAHE	750	691	635	818	759	703	862	807	755
CAHE	710	587	485	771	637	526	810	669	553
NSLB	955	947	938	966	958	949	974	965	956
TAF (including first year):*									
Annual borrowing-									
$1,500	529	438	362	605	500	413	691	571	472
2,500	402	333	275	471	390	322	561	463	383
3,500	328	271	224	392	324	268	479	396	327
5,000	259	214	177	316	261	216	399	330	273
TAF (excluding first year):*									
Annual borrowing-									
$1,500	607	502	414	683	565	467	765	632	523
2,500	472	390	322	545	451	372	634	524	433
3,500	391	323	267	459	379	314	548	453	374
5,000	314	260	214	377	311	257	463	383	316

*For TAF, the cumulative amount borrowed is four times (including first year) or three times (excluding first year) the annual amount borrowed.

Table 14. Expected present value to the student of repayments implied by increases in student costs and borrowing

	Increase in annual cost to student			
	From $0 To $1,500	From $1,500 To $2,500	From $2,500 To $3,500	From $3,500 To $5,000
Gross increase in cost over four years	$ 6,000	$ 4,000	$ 4,000	$ 6,000
Net increase in cost over four years:				
GSL	3,726	2,484	2,484	3,726
NDSL	3,068	2,045	2,045	3,068
GPL	6,646	4,430	4,430	6,646
FAHE	4,236	2,824	2,824	4,236
CAHE	3,602	2,401	2,401	3,602
NSLB	5,365	3,576	3,576	5,365
TAF	3,502	1,252	941	1,075
Net increase as a percent of gross increase:				
GSL	62.1	62.1	62.1	62.1
NDSL	51.1	51.1	51.1	51.1
GPL	110.8	110.8	110.8	110.8
FAHE	70.6	70.6	70.6	70.6
CAHE	60.0	60.0	60.0	60.0
NSLB	89.4	89.4	89.4	89.4
TAF	58.4	31.3	23.5	17.9

Note: All estimates assume a 7-percent rate of secular income growth and borrowing in all four undergraduate years, ignore mortality and default, and discount at 10 percent.

STATEMENT OF ANDREW MAGUIRE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY, ACCOMPANIED BY STEPHEN DRESCH, CHAIRMAN, INSTITUTE FOR DEMOGRAPHIC AND ECONOMIC STUDIES, INC., NEW HAVEN, CONN.

Mr. MAGUIRE. My oral statement is about 8 pages in length, and I would like to work through that, if I may, Mr. Chairman.

I would first like to voice my thanks to Chairman Ford and yourself, Mr. Chairman, and all members of the subcommittee, for your great kindness in giving me this opportunity to address the complex and important matter of student loans.

I have been actively interested in trying to help college students and their hard-pressed families for 4 years now, and I hope that the shape of the Fair Access to Higher Education Act reflects the fact that I have had discussions with many of the groups deeply concerned with the GSL program.

I wish to make it clear that it is not my intention to increase massively the proportion of a student's education which should be financed by loans. Indeed, my bill contains a provision which invites this subcommittee to limit loans to a reasonable portion of total need-based assistance, in light of the basic and supplementary opportunity grants and other aid being reauthorized.

But loans are still important. They act as a vital bridging mechanism, allowing access to a college education for those not capable of covering costs from a combination of parental help, grants, scholarships and work-study programs. Many of my proposals focus on this question of access, but before I amplify these ideas, I would like to point out the guiding principles which molded the bill.

Like many of the witnesses you have already heard, I believe that the current GSL program neither needs nor deserves to have major surgery. The State agencies have blossomed, particularly since the 1976 higher education amendments, which were the result of the leadership of this subcommittee and particularly its Chairman.

It would be a little short of foolish to sweep away all the expertise and creative management which now reside in the State agencies in order to establish a national student loan bank—something I believe would be a Federal behemoth.

To take just one example, the State agency in Pennsylvania drafted and had issued a provision offering lending banks a small reduction in the State business franchise tax for specified amounts of GSL's lent. Banks there are now advertising GSL's availability in newspapers—a case study in the kind of creativity a purely Federal program cannot provide.

But the GSL program is susceptible to improvement in various areas. Certain of its provisions tend to narrow the options of the student on two vital occasions: First, when he or she is faced with a choice between colleges charging different fees, and, second, when the student is choosing a job or career. The purpose of my bill is to curtail these distortions, to make needed loans easier to get and repay for students and their families, to broaden the range of colleges where a student can consider studying, and to permit graduating students to follow a career without having to worry about an immediate and heavy burden of debt repayment.

I believe, Mr. Chairman, that these axioms can be turned into good public policy. MISAA was a step in the right direction, but flesh needs to be given to the worthy aim of expanding loan availability. At the moment, many students are either unable to get a loan from one of the eligible lending institutions, or else can obtain one only with the utmost difficulty.

Many lenders refuse to open a loan account unless the borrower has a previous account relationship with the institution. Others turn down out-of-town, half-time, freshman or minority students. A recent survey of Massachusetts lenders showed that over 70 percent required account relations—ranging from several months to several years—before a loan would be made. About 60 percent required residence within narrow lending areas. Nearly 40 percent barred freshmen and/or half-time students from loans. And of the 18,000 potential lenders, only 10,000 actually take part in the GSL program.

Why? Because there is too often a perception of a very high risk to the lenders. Because the redtape and "due diligence" clauses which are part and parcel of the process of collecting defaults render the guarantee difficult to claim. This perception of risk can be minimized—I think greatly so—if new options are introduced into the program both for borrowers and lenders. And as the elements of perceived risk contract, so the number of participating institutions and the volume of private loan capital disbursed will increase. More and more students will receive loans, and the poorly managed FISL program will be needed by fewer and fewer.

The new options I am recommending include:

First, an income contingent method of repayment which would permit a student to repay flexibly the loan in appropriate increments based on adjusted gross income. The rationale for our particular formula is that it represents the most sensible balance between first and last year repayments. The introduction of such an optional, flexible repayment scheme would, I am convinced, reduce the number of defaults and, less tangible but as important, it would encourage students to choose a job based on criteria other than short-term salary.

Second, the bill proposes new methods to collect loans, whether income based or conventional. The State agencies would be encouraged to collect loans and would be given access to IRS material to do so efficiently. Alternatively, at the discretion of the lender—with the borrower's agreement—or the borrower, the IRS itself could be used. If the IRS is used, students would repay their loans by a supplemental schedule and the filling in of one extra line on the annual IRS form and would have the further option of meeting this annual obligation by withholding from wages. Neither the State nor the Federal Repayment Service would be available to a lender who discriminates against students due to their residence or who requires that a student's family have an account at the institution.

I appreciate that there might be some apprehension about the use of the IRS in connection with student loans. But I would like to stress, as heavily as possible, that the IRS would not be allowed to chase defaulted loans as if they were delinquent taxes. Nor would it be interpreting or enforcing education law. These functions would remain with the Commissioner of Education or with the State agency which insured the loan. The IRS would be limited to performing the appropriate computer functions—providing the necessary tables, keeping accounts, sending out a once-a-year statement on the outstanding loan balance, and referring cases of apparent underpayment back to the Office of Education.

The IRS option makes sense because it has enormous economies of scale when it comes to debt collection and because it is an efficient, effective way to insure regular repayment.

The banks would have major collection burdens removed and the resulting reduction in administrative costs to them, which would outweigh the small fee charged lenders who elect to use the Federal Repayment Service, should act as a spur to make more loans available.

More importantly, more loans would become available because the guarantee would be made real—because with this repayment service lenders would be guaranteed regular monthly payments out of a treasury fund, regardless of whether a particular student "defaults." Of course, under my bill there will be many fewer defaults.

We expect that for similar reasons the State agencies will be at least as popular a choice for repayment as the IRS. In fact, some think that they would be much more frequently used than the IRS, and the IRS would be present in a minimum of cases.

Third, I would like to see students have matters further simplified, both when they are searching for loans and when they are repaying them. My bill would accomplish this through loan consolidation and the establishment, wherever possible, of a centralized lender referral service. No longer would students have to traipse from bank to bank in search of a GSL. Instead, the State guarantee agency, which already has strong networks of relations with lenders, will maintain current computer lists of lenders which stand ready to make additional loans. The loan officers on campus would evaluate the need for a loan in light of other available assistance and forward a uniform application to the State agency, which would contact the lender at the top of its list so that the loan could be made. Loan consolidation would also be done by the State agency, and would reduce both the confusing paperwork for those holding multiple debt obligations, and the overlapping repayment burden which several GSLs and/or NDSLs involve. Beyond this, the lender referral mechanism would allow financial aid officers to "package" GSLs with grants and work-study programs in sensible ways for individual students—a resource not available now.

For State agencies which are prepared to perform these functions and which are also willing to provide local secondary markets for student paper and limited loans of last resort, the bill offers various incentives. The approach of building upon a successful institutional structure—in this case the State agencies—is the best one. The incentives recognize that a truly integrated approach should be encouraged, but cannot simply be mandated from above. These incentives for State agencies include regular "seed" money and preferential purchasing agreements from Sallie Mae; warehousing advances of up to 100 percent of the amount of loan money disbursed—instead of the current 80 percent—an unrestricted OE administrative cost payment of 1 percent of insured loan volume—as opposed to the present redtaped 1 percent, and an extra one-half percent on the special allowance for loans in repayment which are held by the State agency. These incentives involve no major budgetary increases, but they are carefully calculated to appeal to State agencies by providing the kind of certainty and predictability in financing which the current program lacks.

There has been some concern, Mr. Chairman, expressed about my proposal to change the GSL interest regulations and have the students eventually pay back the 7 percent interest that accumulates on the loan during their college years. My intent is simply to deliver on the loan program's promise by actually making more loan money available to mid- and lower-income students. The point of GSLs was always to provide funds so students could go to school, not just give a hidden grant. This provision would do so by permitting more loan funds to flow further down the income ladder—a far better result than promising students eligibility with which real loans cannot be obtained.

The changed treatment of this subsidy would also reduce the government's costs, probably to the tune of $20 million a year—an amount which would make additional grants available, or through the 10-to-1 leverage factor already demonstrated in the GSL program, it would make available $200 million in extra private loan money. But, above all, with the income contingent repayment option, the extra monthly amount a student would have to pay should not prove burdensome.

There are some other changes that need to be made. For example, inflation has pushed up college tuition costs, and there is a need to increase the annual and cumulative loan ceilings for each student.

I therefore propose a new set of figures for the GSLP—$2,000 for the first year in college; $2,500 for the second; and $3,500 thereafter up to a maximum of $18,000, including graduate study—instead of the current $15,000. For another example, I propose to equalize the treatment of students who return to school half-time—and are not now eligible for GSL's, though new half-time students are. And I propose to deal with the defaults that remain by requiring them to be reported to a suitable credit agency—a step that denies defaulters credit until loans begin to be repaid.

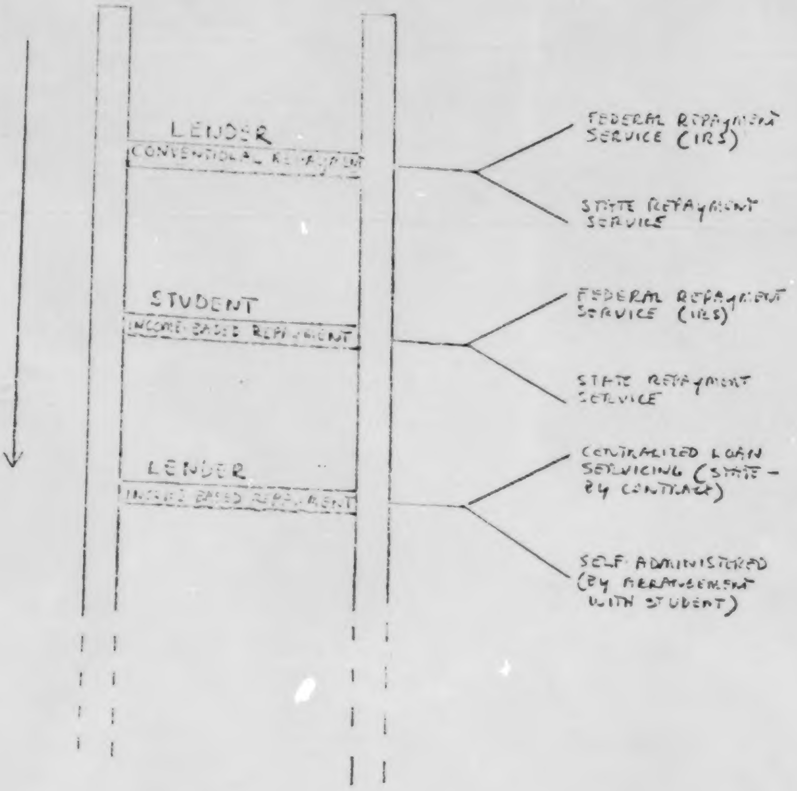
Mr. Chairman, I think that the student loan program does not constitute one of those problems where one group must be pitted against another. It is not a question of student versus lender, State agency versus Federal agency, and so on; the best interests of all can be achieved by expanding access to capital and by making repayments more systematic. I believe that the breadth of support which the Fair Access to Higher Education Act has received indicates that an efficient and equitable solution is at hand.

As I indicated, Mr. Chairman, my written statement goes into much greater detail than I have given you this morning in this brief opening statement, but I would be delighted to answer any questions the members may have.

[H.R. 3769 introduced by Cong. Maguire appears in the Appendix.]

[The attachment to Congressman Maguire's summary statement follows:]

REPAYMENT CHOICES UNDER THE MAGUIRE GSL BILL (H.R. 3769)


LENDER
CONVENTIONAL REPAYMENT
FEDERAL REPAYMENT SERVICE (IRS)
STATE REPAYMENT SERVICE
STUDENT
INCOME-BASED REPAYMENT
FEDERAL REPAYMENT SERVICE (IRS)
STATE REPAYMENT SERVICE
LENDER
INCOME BASED REPAYMENT
CENTRALIZED LOAN SERVICING (STATE - BY CONTRACT)
SELF ADMINISTERED (BY ARRANGEMENT WITH STUDENT)

6-4-79

Mr. **Peyser**. First of all, I want to say that the gentleman from New Jersey has gone into a great deal of study and work obviously in the preparation of this, and I think it is very valuable for those of us on the committee to have this kind of a report. I had the opportunity of looking at the detailed Fair Access to Higher Education Act, and there are many sections of this that are certainly, I think, of vital importance to us.

I would just ask the question where you make in your statement a concern being expressed on the 7 percent interest; it was a concern that I am expressing. I gather what you are suggesting is that during the period that the student is in college, that that 7 percent interest be an accumulated debt for him, or are you suggesting it be paid off while he is in college on an ongoing basis?

Mr. **Maguire**. No; he would not have any further financial burden during the years that he is in school. What would happen would be that the interest that would have been paid by him, if he had not had the in-school subsidy, would be added on at the end of his repayment period, so that he is obligated eventually to repay that.

Mr. **Peyser**. He would be picking up 28 percent basically, additional, the 7 percent for each of those 4 years of the loan as it would be carried through? In other words, he would be making his loan on a year-by-year basis, the 7 percent interest that you are discussing, and that would then be a 28 percent accumulation?

Mr. **Maguire**. Yes; with respect to the first year's loan that would be outstanding for 4 years before repayment begins, in the case of a 4-year rather than a 2-year education. But let me make a couple points about this. One is that this is in the context of providing the income contingent repayment option, which means that these are not going to be burdensome payments. What it simply means is that when the Government gets that money back, it makes it more possible for more lending to go to more additional students. We also, by providing for this ultimate payback, eliminate a strange situation in which a wealthy student could take out a loan and then immediately repay that loan after finishing school and have, therefore, an interest-free loan up to possibly $18,000 during this period. Obviously, people who were looking for extra money to finance their car or do anything else they might want to do, and found themselves in that position, would be taking advantage, quite frankly, of this program.

So for those two reasons, mainly that we have more money to work with and more students will, in fact, receive loans, and, of course, people can pay it back on a contingent basis, plus eliminating this anomaly, I would recommend that the committee consider this approach.

Mr. **Peyser**. Thank you.

Mr. Buchanan?

Mr. **Buchanan**. Thank you, Mr. Chairman. I do want to compliment the gentleman for what is quite obviously some years of research and work on this proposal. It has borne at least some fruit, because when we heard from several student groups earlier this week, the Maguire bill was positively mentioned in a series of statements.

I wonder if you could share with us for the record what higher education associations have indicated support for your proposal, and if there are any that oppose it.

Mr. **Maguire**. Certainly, Mr. Buchanan. I have been delighted with the range of support that has been indicated thus far. For example, and I hope he will be here shortly to testify before you, Stephen Dresch, of the Institute for Demographic and Economic Studies, who is a national authority on student loans and HEW's contractor for evaluating alternative loan proposals over the past year, and he previously worked with the Ford Foundation and others, has indicated that this bill is a very important and unambiguously positive step.

The education organizations—the National Education Association has stated that "At long last a sensible thoroughly informed proposal has been introduced." The Association of American Law Schools, as you heard earlier in these hearings, felt that the bill satisfies "every one of our major objectives." Among student organizations, the U.S. Student Association said it felt that it was a thoughtful and positive approach. USSA favors the approach suggested in this bill, which is more in tune with its thinking than the proposals that the administration seems to be preparing. Also, the Coalition of Independent College and University Students said it was the most compelling proposal they have seen yet.

I have support from my chancellor from the Department of Education in New Jersey, you will be glad to hear, who says he likes it because it builds on the strength of the present system.

In the banking community, Smith Barney & Co. and Blythe, Eastman, Dillon & Co. have both indicated support for the bill. And Loren Carlson, in a statement, said the bill is constructive in that it utilizes the present strengths of the current system.

So, to answer the gentleman's question, there is, I think, a gathering and broad range of support from those who are involved in one way or another in trying to make these programs work and who believe some of the suggestions contained in the bill will facilitate that work.

Mr. **Buchanan**. There are, as you are aware, and have anticipated in your oral statement, certain questions that have been and will be raised. The gentleman from New York touched on the chief one. You would propose we defer interest rather than having it paid by OE, and you have answered him rather fully, but I do see that as one of the aspects which will have to be thoroughly answered if it is to be accepted.

Mr. **Maguire**. Yes, and could I make an additional comment on that point? The gentleman mentioned 28 percent. That would be 28 percent just for a loan taken out in the first year of, let's say, the 4-year period. It would be 21 percent for a loan taken out in the second; 14 in the third; and so on as the period declined on which we were paying.

Mr. **Buchanan**. You mentioned additional incentives for lending institutions to participate. Secretary Califano took the position that the incentives are already too great, that they are making too much money and are too lucrative. Do you have anything to say about that?

Mr. **Maguire**. Well, I think the fact of the matter is that the banks have been placed in a situation in which they have suffered from the imperfections and the redtape in this program, whatever return they may be getting on the loans, and I tend to think that not all that many loans would be made if there were not some sort of return coming back.

But they have administrative problems. They have the due diligence requirement which says "'Yes," you have a guarantee but you can't pick up on that guarantee unless you have gone through this due diligence process to collect the money.

Then the question is, Well, what is due and what is diligence, et cetera. If they have moved off the program, they have moved off of it because it just creates problems for them.

Of course, to the extent it creates problems for them, they are going to try to minimize those problems by making sure they don't lend to people who raise a question mark in their minds from the point of view of possible future difficulty with repayment.

So I don't think it is finally a question of return so much as it may be just a question of whether the whole process works efficiently enough or well enough. I think they are going to get a fair return. But I think that is part of what will make this process work.

I think if they get a fair return and if we can eliminate some of the administrative problems, if we can provide incentives for people to participate fully in the program and for choices to be available both for the lenders and the borrowers, we will be a lot better off than if we put together a single massive direct Federal program with all of the difficulties, other sorts of difficulties, that you can imagine might flow from that.

I might ask Mike Levin who has been a consultant to me on this program if he has any additional comments on that.

Mr. **Levin**. Thank you, Congressman.

Congressman Buchanan, I would like to make one point in additional response to the question and that is the allegation that banks make excessive profits primarily comes from the assertion that if the banks manipulate the ability to warehouse funds through Sallie Mae they can make up to 25 percent of the money they have outstanding.

That is true in a sense, but only in banks that have access to Sallie Mae.

As you know, one of the problems with this problem has been there is not sufficient access. I don't mean to slight the performance of Sallie Mae, but you have a huge universe of lenders, many of whom are caught in a Catch 22 situation. In order to have access you have to have a portfolio substantial enough for Sallie Mae to purchase.

There was at one time a $100,000 minimum requirement. I understand that has not existed for some time now. But understanding is that they still have to be fairly deeply into student loans to be sure they have access to a secondary market. Then if they discover they have gotten in too far, it is very difficult for them to extricate themselves.

That has kept a lot of lenders out of the system. That is one of the reasons you have only slightly more than 60 percent participation among the eligible institutions.

Second, if so many banks are making such profits, I fail to understand why there are significant problems with access to college-based loans. A bank that can make 24 percent of the money should be perfectly happy to invest as much money as it can lay its hands on.

But we know in many places that is not happening. In any case, to the extent there are profits, those profits remain taxable. Much of that money will flow back into the Federal treasury.

The point of making guaranteed student loans financially attractive to the private sector was exactly what Sallie Mae was created to do. If we want to address that question, it should be addressed in terms of the whole statutory scheme and not whether as of now there is something improper with banks doing exactly what the 1976 amendments and the 1972 amendments were passed for Sallie Mae to do.

Mr. BUCHANAN. Mr. Chairman, I have exceeded my time. I have several more questions, but I will wait my next turn.

Mr. PEYSER. Mr. Weiss?

Mr. WEISS. I want to compliment you for the tremendous amount of work and for making the job of the subcommittee much more focused and therefore much easier.

I have one substantive question.

Mr. MAGUIRE. I am sure that is a prelude to a blockbuster.

Mr. WEISS. No. It deals with the IRS participation. I wonder whether you feel that the entire legislative program that you have outlined is dependent on it or whether in fact it exists even if the subcommittee were to decide that they liked the rest of the program, but that for reasons of its own or our own, that we would not want the IRS to come in and participate as you have outlined?

Mr. MAGUIRE. OK. That is an excellent question. I would hope that before making that judgment the committee would look very, very carefully, first, at what this bill actually provides, and, second, at a judgment about what the alternatives really are.

Now, under the first point this bill actually provides a situation in which the involvement of the IRS is minimized almost to the point of not being present, for two reasons. But it is still present and I will get to that in a minute.

First of all, there are a whole series of choices that can be made by the borrower, (the student,) and the lender. The IRS involvement in terms of figuring out what kinds of liabilities there will be at what year in the payback scheme, et cetera, comes in only in some of those cases.

That is, you can still have Federal repayments under the conventional pattern that we have. You can still do the conventional repayment with the State collection service. You can—if you are a student, you can choose not to have the IRS involved in any direct way. You can work with the State repayment service and they would have access to income tax data, but you would not have the IRS putting anything by way of hurdles in your path or requiring information directly from you.

There are, in short, under this bill, alternatives which do not involve the IRS and where the IRS is involved it is involved very slightly.

I would like to just add that the IRS now functions, for example, to locate missing parents where there is a claim against a husband for child support and that sort of thing. It is that kind of involvement that we are talking about, not the IRS assessing you, tracking you down to the ends of the earth.

In other words, it is a convenience factor which takes me to my second point which is that——

Mr. **Weiss**. Before you get to the second point, let me ask you this: You said it is up to the student whether the IRS participates at all. If the student says "No," I don't want the IRS, I want the State loan agency or collection agency to handle the problem, that State agency then has the right to have the IRS supply on an annual basis the financial information which it has available for that student?

Mr. **Maguire**. That is right. But we already do this kind of thing in a number of other areas. So I would urge you to not exclude this simply on the grounds of symbolism or, if you will, preconceptions about maintaining an absolute separation here. We are talking about locating people. We are talking about the kind of data that needs to be available in any situation in which people are transacting major financial matters.

Now the other thing about it is that if you were to take the IRS out altogether, if you were to take out this minimal role which we have described here for the IRS, I think it would be very difficult to achieve what we are achieving in the bill. Any alternative we believe involves more difficulties, more inequities, more costs, without any compensating benefits than the alternative that we propose.

For example, you could have a set of alternative profiles for repayment that would not be pegged to actual income and students would have to choose in advance as to whether they wanted this profile, that profile, or some other profile. That has been suggested by some as an alternative.

I think, and I would be happy to elaborate, I think there are probably four or five problems with that that don't immediately come to mind but which upon analysis do make themselves apparent.

Mr. **Levin**. Congressman Weiss, right now under current Federal tax law both the FISL part of the guaranteed student loan program and schools making national direct student loans do have access to IRS data for purposes of locating students who are in a default or delinquent status. But that is denied through the way that is written to the State guarantee agencies which currently insure over 80 percent of outstanding GSL's.

As Congressman Maguire made the point, that is an anomaly that should be corrected in any event and that is one way the bill attempts to deal with the problem.

Mr. **Weiss**. Thank you very much.

Mr. **Maguire**. Thank you for your question.

Mr. **Peyser**. Thank you.

Before we continue with the panel for the questioning of Mr. Maguire, I see Mr. Stephen Dresch who is the Chairman of the Institute of Demographic and Economic Studies has arrived.

Do you want to lend something to the testimony that has been given by Congressman Maguire at this point? Is that the way you would like to proceed?

Mr. **Dresch**. I came into this rather late.

Mr. **Peyser**. I wanted to give you the opportunity. At the conclusion of our questions where you may make a statement if you wish to make one at that point.

Mr. **Dresch**. I should stress that while I have worked fairly closely with Mr. Maguire's staff on this bill, I am not here representing Mr. Maguire or as his witness on this testimony. I do have my own perspective on this subject.

Mr. **Peyser**. Then we will conclude our questions of Mr. Maguire and then we will come to you.

Mr. Tauke?

Mr. **Tauke**. Congressman, you indicated that you did not favor the establishment of a student aid loan bank and you dismissed it with some uncomplimentary remarks.

Could you be more specific in your argument against that concept?

Mr. **Maguire**. Sure. I think there are a number of things.

First, in 1976 the decision was made with the leadership of Chairman Ford and this subcommittee that the best location for sensitively handling requests for loans and disbursing loans was the State level.

Now we have State lending agencies in about 40 States or so, maybe 39. If we were to proceed now to a unified, massive Federal system, we would be, first of all, doubling back on where we have been and eliminating the innovations that were developed in the 1976 legislation.

Second, on the merits, I think the 1976 decision was a correct one. The State agencies have increased in number. The amount of loan money that has gone out has increased significantly each year, the number of students being served.

What we seek to do in this proposal is to build on these events and to give the State-based operations even more incentive and more flexibility to center right down on the campuses the process of making decisions about what would be an appropriate package of assistance for student A and student B and student C.

If we were to go now suddenly to a total Federal program, not only would we have the problem of dealing with all of the existing GSLs and NDSLS that are out there that won't come due for the next 10 or 15 years, but we would have a clean break with where we are, with the strengths of the existing system, and there are always enormous start-up problems in the development of any such new major program.

I think there would be an interim period of time when almost nothing would get done. Then, over a longer period of time, I think there would be real questions as to whether it was going to really meet the needs of individual students.

What we gain by keeping the present structure and refining it is that we have lenders, people on the campuses, the students and

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their families and the State Repayment Service all located within reach of each of the parties rather than having a massive centralized bureaucracy in Washington with all of the problems that that usually engenders.

There is also, I might just add, that the experience that we have had of doing it this way, which shows that you can take $1 of Federal money and bring $10 in the private sector into the loan program.

So from the point of view of efficiency of the use of tax dollars, it is much, much more efficient.

Mr. TAUKE. Let me ask you a few things about the mechanics of your proposal.

Do you have any time limitation by which loans must be repaid?

Mr. MAGUIRE. Though my bill contains no formal outside limit, they could be repaid as long as over 30 years, but the data we have developed shows that most loans will be repaid within 15 years and some 96 percent will be repaid within 19 or 20 years.

So what we are doing is adding some flexibility there but not having a situation that would drag on unduly.

Mr. TAUKE. I will then question him about those States because it seems to me that the loan burden that could be built up would be very substantial, particularly if students choose not to enter the work force upon graduation from college or graduation from graduate school.

As the 7 percent kept building on, it seems to me it could become very substantial.

Mr. MAGUIRE. There are some tables, Mr. Tauke, that are attached to the longer written statement which you may want to look at when you have time which give some profiles of exactly what those payment schedules would look like compared with the rigid 10-year repayment schedule we have presently.

Mr. TAUKE. With the IRS collection system, what would the role of the employer and the borrower and the lending institution and the Office of Education be if the IRS was chosen as the repayment vehicle? How are all these people notified? How does this all work?

Mr. MAGUIRE. The IRS simply is the checkpoint where the amount that would be due is calculated in relation to income and then the checkpoint if the money isn't coming in as it ought to, at which point the IRS does nothing more than inform the Office of Education.

At that point the collection process begins. But it is not as an IRS action.

Mr. TAUKE. Let me interrupt right there.

The IRS is a checkpoint. I thought the way the IRS got in was if the student chose to have the IRS come in.

Mr. MAGUIRE. Yes. There is also attached to my written statement a little ladder that shows you at which point the lender and the student make which choices.

You will see that the student, once he decides he wants an income-based repayment rather than a conventional repayment, then can choose whether he wants to have the IRS tick this off on his income tax form or even withhold it, have a withholding relationship with his employer.

Or, if he doesn't want to do that, he can work directly with the State Repayment Service.

Mr. Levin might want to comment further.

Mr. LEVIN. Very simply, Congressman Tauke, let me put what Congressman Maguire said into a little broader context.

At or before the beginning of repayment, the student has an election as to whether he wants conventional-based repayment or income-based repayment. That can be done either through use of the Federal Repayment Service or through use of the State Repayment Service. If the Federal Repayment Service is elected, there is an administrative procedure for notifying the Commissioner of Education or the Secretary of the Treasury. That student would then repay his annual obligation by virtue of a supplemental schedule and a one-line entry on the Form 1040. That would go into a fund in the treasury from which payouts would be paid to the lenders.

The student has the further option, if he so desires, voluntarily, of meeting that obligation on a current basis just as he meets his tax obligation, through periodic withholding by his employer which would be piggy-backed on the existing withholding system and would involve marginal costs to operate.

The supplemental schedule at the end of the year would include those amounts paid in. If too much had been paid in according to the income-based repayment schedule for that year, then he would get a refund for that amount. If he had not paid in enough, exactly as you do with taxes, he would then pay the difference at the time he files his tax return.

Mr. MAGUIRE. Of course, the Office of Education ultimately is going to have many fewer individuals in default to go after as a result of the income contingent payback scheme and the flexibilities that have been put into the system where people can make sensible choices at each place along the way.

So we are looking for a major reduction in the default liabilities in Government.

Mr. PEYSER. Mr. Ratchford?

Mr. RATCHFORD. Mr. Maguire, I congratulate you on the depth and research of the statement made this morning. It is refreshing to see rather than that superficial treatment we see on many complex issues an in-depth analysis and a very thoughtful statement.

Mr. MAGUIRE. Thank you.

Mr. RATCHFORD. I am interested in your involvement of the State agencies. I was a member of the Connecticut General Assembly at the point the Connecticut Student Loan Foundation was set up. Over the years, in the decade-and-a-half since its existence, it has benefitted thousands of students and seems to be well run.

Do you have information as to the state of the art on student loan foundations in the 50 States? Does each State, for example, have such an institution, and have you surveyed them as to their potential future involvement in this program?

Mr. MAGUIRE. We have 39 States that presently have such State agencies in operation. Other States are planning them and there should be some 45 by next year.

The overall analysis—Touche Ross and others have done studies—show that the State agencies are doing very well indeed. They are putting out more money each year. More students are being served. It appears to be the sort of thing that has proliferated through what I think was the very wise mandate that was provided in the 1976 legislation.

If they were not working well, States would not be hurrying to set them up which they are in fact doing.

Mr. **Ratchford**. Does your own State have such an agency?

Mr. **Maguire**. Yes.

Mr. **Ratchford**. What is your evaluation of its effectiveness?

Mr. **Maguire**. We think it is doing an excellent job. We would like to provide it with these additional elements of flexibility. We think that it would then do even better.

Mr. **Ratchford**. In your own opinion would it be equipped to take on this added responsibility?

Mr. **Maguire**. Yes.

Mr. **Ratchford**. Have you been approached as to a willingness to accept this responsibility?

Mr. **Maguire**. I think the State agencies feel that they have a contribution to make which is unique and is geared to the particular situation of a given State. I think they would clearly prefer to refine the existing law than to move to, let's say, a direct Federal approach which would wipe them out.

Mr. **Ratchford**. Have you been in a position to survey the other 38 States as to a willingness to participate or have you talked to a national association representing these associations?

Mr. **Levin**. We have dealt quite extensively with a couple of State agencies, New Jersey, Pennsylvania. We have also dealt extensively with the staff from the National Council of Higher Education Loan Programs which is the association that represents the State agencies. There has been informal feedback from a good many people we have contacted with the other State agencies.

I think it is important to stress not only that the 1976 amendments which created incentives for States to set up additional guarantee agencies produced an explosive amount of activity in that area which has produced benefits for students and their families who are attempting to attend college, but that the States are a source of innovation and creative management that would be very difficult to obtain in view of divergent conditions from State to State, with one single Federal program attempting to mandate procedures from above.

To take just one example, the State agency in New Jersey runs an informal clearinghouse which is intended to put students who need loans together with lending institutions that are willing to make them. There has been considerable success there.

To take another, one of the provisions in Congressman Maguire's bill came directly out of the successful experience begun by New Jersey which is where you have a verified default the default must be reported by the State agency or the FISL program that insured the loan to a nationwide credit reporting service. That effectively denies loan defaulters any credit they apply for, whether it is a mortgage or a shopping card for a department store or any other kind of credit.

That has been very successful in reducing the amounts of defaults and the net loss from defaults in New Jersey. We propose to include that as well.

One further example: In the State of Pennsylvania, the State guarantee agency drafted and managed to have its legislature pass a relatively small reduction in the State business tax franchise for banks who make a certain amount of guaranteed student loans. That has had an incredible impact on access, to the point where lending institutions are now advertising in newspapers the availability of extra money for student loans, virtually begging students to come in and get them.

Mr. RATCHFORD. On pages 6 and 7 of your written statement you address yourself to the question of administrative costs.

Do you have an opinion as to what the additional administrative cost factor would be from using this vehicle, and if so, what would that be?

Mr. MAGUIRE. If you accept the success of the bill, which would have everybody eventually repaying those interest costs that have been waived during the college years, you would, of course, end up with a very substantial net plus on the balance sheet.

Everything that we are doing here, apart from that, we calculate adds less than 1 percent to costs and provides so much more by way of loan monies available at times and places that people need them equitably and so on that additional cost is more than made up for by the benefits.

Mr. RATCHFORD. Finally, there has been some concern here that there are currently too many programs—seven in number—and therefore the student, his or her family, and institutions find it difficult to understand their intricacies. The net result can be a discouragement from participation.

You talk about diversity. Do you have any feeling that perhaps we have become too diverse at this level as it relates to a variety of programs?

Mr. MAGUIRE. Well, I think there are sensible reasons for the various kinds of programs that we have. I certainly will defer to the committee's expertise on whether there can be consolidations on any of those existing programs at the level of providing the programs.

What this bill seeks to do is two things: First, to provide for a packaging process right at the outset so that the student goes into the loan officer at the college and says, this is my situation.

A loan officer says, fine, this is what we have available, this is the kind of package that we think makes sense for you, and they work it out and it is all right there.

It is not a question of taking something here and then discovering that you hadn't calculated correctly and grabbing something else here and something else over there.

At the end of the process when you get to repayment, instead of having the chaotic situation now where you have four or five different schedules for repaying four or five different obligations, you could consolidate.

Under this bill you would have the ability to consolidate all those loans, including the 3 percent NDSLs if you had those, and put it all into one income contingent repayment scheme which would, I think, be enormously advantageous.

Mr. Ratchford. Thank you. I am sure we will pursue this further after the formal hearings, and, again, thank you for your thoughtful presentation.

Mr. Maguire. Thank you.

Mr. Peyser. Mr. Chairman, would you like to question our distinguished witness?

Mr. Ford. Thank you, Mr. Chairman.

I want to thank you for proceeding. I was tied up in a friendly but intense discussion in another meeting and was delayed in coming to the hearing this morning.

I would like to compliment Congressman Maguire for not only the amount of work he has put into his proposal but the veracity with which he has pursued it.

I think the members of the committee should know, those of you who don't, that late last fall when we were about to go to the floor with the Middle Income Student Assistance Act, it was then Mr. Maguire's intention to offer his proposal as an amendment to that legislation.

Without trying to pass judgment on the merits of the proposal at that time, we prevailed on him to withhold that effort because we were rapidly moving to a situation where we found ourselves in a difficult position of going to the conference with the Senate and had his amendment been accepted.

I want to publicly thank Andy for his forebearance at that time because it contributed greatly to our success in passing the bill in the very last hours of the session and getting it on the books. A lot of students this year should be grateful for the fact that you did defer conversation until we got to reauthorization.

At that time, as the chairman of the committee, I committed myself to Andy to make sure that, to the extent that I could, we would give his proposal full consideration during the reauthorization process.

I think it is apparent, as you go through this, and particularly with the benefit of his responses to the questions, that this is not something that he picked off a tree yesterday but that he has been working on for some time.

As a matter of fact, I think from time to time he has changed his approach slightly as concerns have been expressed by various people. I think this proposal is very helpful to us, Andy, because in addition to the fact that you raise and discuss the points that are of greatest concern to almost everyone who has testified before the committee and has contacted the committee with respect to the GSL program, you offer constructive alternatives that can be examined with the other alternatives, including the administration's proposals and the things that Neal Smith talked about this morning and others of like mind that obviously have to be considered by the committee in determining what the future of the present GSL program is going to be.

I have one question with respect to your presentation and the discussion you had with Mr. Ratchford. As I understand it, you would have the GSL loan continue at the present rate of subsidy which is currently 12 percent?

Mr. **Maguire**. That is correct.

Mr. **Ford**. That is 5 percent on top of the 7. That is an annualized figure and this quarter it goes to 13¼ percent. You would have the subsidy above 7 percent paid during the period of the student's enrollment in school, as it is now?

Mr. **Maguire**. That is right.

Mr. **Ford**. But a 7 percent portion of that which is now subsidized would be deferred rather than paid and repaid ultimately by the student.

Does the Federal Government put up the money during the period of deferral or does the lender accept the deferral?

Mr. **Maguire**. No. The Government pays the lender just as presently is the case.

Mr. **Ford**. So at least in the initial stages the requirements for appropriation would be the same as they are now. The difference would be that we would be accumulating an asset in the form of the 7 percent at the time that the loan goes into repayment?

Mr. **Maguire**. That is exactly right, Mr. Chairman.

Mr. **Ford**. You estimated that that produces about $20 million a year. Have you worked that out some way? I don't know whether it would be, but it seems low to me. It seems like that would produce a lot more than that $20 million a year.

Mr. **Maguire**. I would have to defer either to Mr. Levin or Mr. Dresch on that.

Mr. **Levin**. I think Dr. Dresch will testify extensively to the derivation of those amounts. Obviously, how much you spend depends on the level of participation in the program, how many new loans come into the program, and how you treat them.

Dr. Dresch has done the model on this and I think he should testify to that.

Mr. **Ford**. There were two concerns testified to before the committee last week, one by representatives of the student lobbies about interest deferral. They used as an example the program that uses that method that they do not believe is quite fair, that is the HEAL loans where they point out that what this promotes is a kind of interest on interest pileup that, from the student's point of view, acts as a transfer of cost from the public in the form of a subsidy to the student in the form of the increased interest burden.

That concerns some of us because it goes along with your suggestion that we increase the amount of indebtedness that a student can incur. This is against the traditional but unofficial kind of a balance between the burden of educational costs borne by the students, the burden borne by the public at large through Federal or State tax monies, and the burden borne by the institution that the student attends. To maintain a kind of a balance that, as one of the student groups put it is maintained by market forces. Market forces have a tendency to hold down tuition increases which we know now to have been over the last decade much lower than they would have been had they been indexed in any fashion to the true cost of the increase in the cost of education or the increase in the cost of living generally.

My recollection is that the general increase for tuition averaged something like 7 percent a year during the period when everything else was going up much more rapidly. They are fearful that making too much credit available too easily is going to be a temptation to decisionmakers at the State and institutional level to shift more of the cost of education to the student.

We have evidence that some of that sort of activity has already occurred as a result of the enactment of the Middle Income Student Assistance Act.

Perhaps Mr. Dresch is working on this, too, and this is not the proper place to ask it, but with that kind of concern in mind, do you feel that we are or would be increasing the likelihood of larger amounts being borrowed by the student to the extent that the impact the students are concerned about would be felt?

Mr. **MAGUIRE**. Perhaps Mr. Dresch would have some comments, but let me start by saying that, of course, we still have a yearly limit on what the student can in fact borrow. It is a little higher.

Mr. **FORD**. Yes, and I must say that your ultimate ceiling is not that much higher than the present ceiling.

Mr. **MAGUIRE**. That is right, particularly if you figure in inflation since the last time these ceilings were set.

Mr. **FORD**. But the offsetting factor would be the facilities of borrowing larger amounts of money. If the student looks upon this as a true obligation, they are looking forward to the repayment and that causes them to use the loan as their last resort and in a minimal way.

Mr. **MAGUIRE**. Yes. The legislation as we have drafted it also says that the loan should be a reasonable portion of the total costs that the student incurs. It is left to the wisdom of this committee to determine whether that would be 30 percent of the total or 35 or whatever other number.

That will also provide some constraint on unwise borrowing and also on increases in tuition that might be forthcoming in the absence of some of these constraints.

The other thing, of course, is that our program is not a universal entitlement program. It doesn't take the lid off and allow everybody to get everything they want whenever they want it. If we had that kind of a program, I think we would have a serious problem with increases in tuition that were perhaps unjustified and a shift of the sort that you suggest.

As near as we can figure out the numbers, the limit that the student can take out yearly plus the reasonable portion of the total package concept plus the fact that everybody is going to have to go and package and justify what they are doing rather than just having an automatic universal entitlement will provide the kind of constraints that work in the real world where the pressures are going to be exerted.

Mr. **FORD**. Both the students and the banks last week spoke favorably about a flexible repayment system, but some of them specified that they didn't think that it should be income contingent.

As I understood your description of your flexible repayment system which would be income contingent, it could be stretched for as much as 30 years, did you say?

Mr. **MAGUIRE**. Yes, but——

Mr. **FORD**. You felt 90-some percent would be paid off in 19 or 20 years?

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Mr. Maguire. Yes, and a very high percentage in 15 years.

Mr. Ford. A representative of a Pennsylvania bank who sometimes spoke for the ABA but not always because he felt their positions were not in harmony in Pennsylvania expressed a concern. I might say parenthetically, if all the State agencies in the country were as adept at handling these things as Pennsyvlania, it would be much easier to visualize the ultimate success of this program.

He pointed out one of the problems he has in a volatile money market where people expect the interest rate will keep on going and they go out to borrow as much as they can borrow because everybody assumes the cost of money will rise to nobody knows where it will stop. There is no indication that a prime rate above 11 percent is doing anything to dampen individual credit.

But he said that one of the problems with student loans is that you have money out at a fixed rate of interest for too long a period of time. They suggested that we might consider a rolling interest rate or flexible interest rate like they are doing with mortgages in some States now. So then you take the element of a gamble out of this for the bankers.

Your proposal suggests that the lending institution should be able to warehouse 100 percent of their paper rather than 80 percent. If in fact we have this kind of a growth in the interest rate, and we are talking about most of the money being out for as long as 20 years, isn't it likely to assume that in a relatively short time Uncle Sam will be holding all this paper through Sallie Mae and that in fact the bankers would shift the interest?

Better than warehousing it, they have the right to sell it. If they warehouse it, they have to put it back out in interest. That is only a slight hedge, but selling out altogether gets them their money back because now they have 13 percent money out and they are making some other ungodly figure in the rest of the investment portfolio.

How would you hedge against the tendency of the lending institutions to get out of this long-term obligation as interest rates rise and thereby get money out of the student loan bank instead of in it? In other words, if they get their 80 percent under the present system through the warehousing rather than sale, they have to reinvest that in loans. So it is an incentive to build up the pot of available money.

Mr. Maguire. We want them to warehouse it and to sell it.

Mr. Ford. If it is 100 percent either way, what is the incentive for the bank to hold on to it? Why don't they just sell it when the interest rate goes up and buy new paper later at a higher interest rate?

Mr. Maguire. They will be able to put out future loans at a higher rate of interest.

Mr. Ford. But a warehouse loan they cannot change the interest rate on it. They are stuck with that for 20 years.

Mr. Maguire. That is right for that period of time. But we have reason to believe we are going to cut their costs and increase their yield on these loans against what they actually get now under the 10-year repayment schedule. We think that would help substantially.

Mr. **Ford**. As one member of the committee, I was left last week kind of puzzled because every time I have made the statement in front of groups that some bankers are making money on the guaranteed student loan program there is always someone who challenges me by pointing out that it is impossible, that they are only in this as Mr. Buchanan observed the other day, that they are only in this as eleemosynary institutions and doing it out of the goodness of their hearts.

They say it is virtually impossible to make any money, but they also made a very strong statement that we should not change anything for them. They say it is a loser for them, but we ought to let them keep losing.

So it is very difficult. We don't know what their position is. The Pennsylvania banker outlined a system of cooperation that goes on in Pennsylvania that is almost unique but certainly one of the best in the country. It does provide a broader base of access than you can expect in any but two or three other States.

But he expressed an attitude that they had found that they could live with this, that it was good for business, it was good for community relations, and all kinds of other pluses.

But the banking community speaking officially through their organization said we are worried because what you are talking about here is interest rates. If they are tied to the present level, they are not going to be profitable in the future and the rate of the subsidy would have to be increased on some ongoing basis to make it worthwhile for them to put a lot of money in this kind of investment.

They can lend the money out for automobiles, for example, and pick and choose their customers more carefully than with student loans and they have all their money paid back in 3 to 4 years which reduces their risk with respect to what happens in the money market.

Nobody wants to lend money for any period of time because they are afraid that they are lending money that is going to be cheaper in the future.

Mr. **Maguire**. Well, for whatever reason, Mr. Chairman, the amount of lending has in fact increased 10 to 25 percent each year since 1975. So there hasn't appeared, at least in the aggregate—there may be individual problems here or there but in the aggregate it appears as if the lending has been something that the banks in fact want to expand.

Mr. **Ford**. Well, it has increased. It has increased in spite of all the protestations that it is a nonprofitable kind of investment. When they were talking about flexible repayment, I think they were talking within the time periods that we are dealing with under the present system rather than expansion in time.

When they talk about flexibility, they talk about low payments at the front and big payments at the end and some kind of an averaging out.

But I got the impression that they would not at all be interested in extending the time that their money was going to be out.

Mr. **Maguire**. Well, quite a number of the loans would in fact be paid in 8 or 9 years under the program that I am suggesting. It is just that in cases where you had the lower income profile, that if you needed 12, 15 or 18 years, that you could get that.

Again, perhaps Dr. Dresch will be in a better position than I am to give a fuller answer to your question which frankly I am not able to do.

Mr. FORD. It is a technical point at any rate.

Mr. MAGUIRE. It would depend on the proportions of people in each category, et cetera.

Mr. Levin, perhaps you would like to respond further.

Mr. LEVIN. Thank you, Congressman.

Mr. Chairman, let me make a couple of random points in response to your suggestions.

First, as you have noted, I think it is true that you can't treat guaranteed student loans as if they were a loan to buy a car or a vacuum cleaner. Banks don't treat them that way either. They see substantial opportunities to build up goodwill in the community and do several other things that are good for other business purposes other than the gross or net rate of return on the particular loan.

Second, I think whether or not the banks make money on this program depends on what kinds of banks they are and where they are located and how efficient their operations are.

It may be true, and there is some slight evidence that suggests that where a bank is a money center bank and it gets most of the funds available for guaranteed student loans, that it is making from the discount window at the Fed at whatever it is, 10 or 11 percent right now, that at 12 or 13 percent it does not have the margin to make much money on the loans.

On the other hand, there is a huge pile of lenders who do not participate in this program now—which we in this bill propose means to tap into the system—whose costs are much lower because they rely on savings accounts which pay 6 percent or insurance and pension funds or things of that kind, the Savings and Loans, pension funds and insurance companies who might very well think a 12 percent return on an internal cost of funds which is 6 or 7 percent provides a very handsome way of investing some money.

Second, we provided means by which even people who have that narrow margin can cut their costs substantially and still get a yield which I think is the important figure, not the gross return, not whether they are making 12½ percent on the money they have put out but what the yield is on that after they have taken out their costs which approximates what they can get if they make other loans for higher rates of interest. That is another way to keep this competitive in the total money market.

Finally, with respect to the other point that you have made on the tendency for all the money to flow to Uncle Sam in any event, there is a trade off here. To the extent you have income-based repayment or any kind of flexible repayments, increased access to a secondary market seems to be the necessary counterpoint to that if you are going to continue to rely on private capital to finance this program. And I think history suggests that is probably the preferable way to go unless you are prepared to incur substantial disruption and transition costs.

If you want to go that way, you have to have a secondary market and at the same time you have to insure that everything does not flow in one direction, resulting in less money out there for future loans.

One of the things we have done to deal with that is provide incentives for State agencies to make access to secondary markets easier for small lending institutions, particularly institutions of the types we have tried to provide incentives to get into this program as active lenders.

We have also provided a limit on the amount that the State secondary markets can warehouse, both because we don't want everything flowing all at once and also because we are concerned about the administrative capacity of a new operation in the State agency to handle huge amounts of loans just to process and service them, if 50 or 60 percent of the loans in the State come flowing in 1 year.

So we have provided an annualized cap which is between 15 and 30 percent of the last year's borrowing. If the State secondary market permits its warehousing or purchasing operations to expand faster than that, they will not be eligible for the incentive our bill provides. I think that is sound business practice.

Mr. PEYSER. Thank you.

Congressman Maguire, the work that you have done has created a great deal of interest in the committee, and if you would like to remain while Dr. Dresch testifies, that is up to you.

We do thank you for what you have put in. I would like to declare a 20-second recess while the chairman and I change chairs.

Mr. BUCHANAN. Mr. Chairman, may I have the 20 seconds?

Mr. PEYSER. Yes.

Mr. BUCHANAN. I would like to ask unanimous consent to submit additional questions to our colleague from New Jersey. I think we have just about covered the waterfront, but there are a few more things.

Mr. PEYSER. Certainly.

Mr. MAGUIRE. May I say also, Mr. Chairman, how much I appreciate Chairman Ford's advice on how best to proceed with respect to the consideration of these matters. I appreciated it last fall. I think it was right and I appreciate very much the hospitality that he and this committee have shown me today and the time that you have taken to explore some of these ideas.

I thank you all very much.

Mr. FORD [presiding]. We will call now on Stephen Dresch, chairman, Institute for Demographic and Economic Studies, Inc.

Without objection, the prepared statement and the attachments thereto, the appendix will be inserted in full at this point in the record. You may proceed to comment on the prepared text.

[Prepared statement of Stephen Dresch follows:]

IMPROVING STUDENT ACCESS TO THE CAPITAL MARKET: THE FAIR ACCESS TO HIGHER EDUCATON ACT

Testimony By

Stephen P. Dresch, Chairman
Institute for Demographic and Economic Studies, Inc.

For Presentation to Hearings of

U. S. House of Representatives
Committee on Education and Labor
Subcommittee on Postsecondary Education
William D. Ford, Chairman

5 June 1979

Although the author is solely responsible for the content of this statement, he would like to acknowledge the direct or indirect contributions of Anne Jacobson and Ruth Schultz of the Institute for Demographic and Economic Studies, Ira Burney of the Health Care Financing Administration, Rich Wabnick of the Office of the Assistant Secretary for Planning and Evaluation of the U. S. Department of Health, Education and Welfare, W. Lewis Hyde of the Connecticut Conference of Independent Colleges, and Richard Boltuck of the University of Chicago.

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Mr. Chairman, I appreciate the opportunity to appear before this subcommittee to discuss current and proposed federal student loan programs. At the request of the Office of the Assistant Secretary for Planning and Evaluation of the Department of Health, Education and Welfare, I have just completed a comprehensive economic analysis of several recent legislative proposals. The report of that study is included as an annex to my prepared statement. In addition to the Fair Access to Higher Education (FAHE) act submitted by Representative Maguire, that report assesses the existing National Direct and Guaranteed Student Loan (NDSL and GSL) programs, the Tuition Advance Fund (TAF) proposed by Boston University president John Silber and embodied in legislative proposals by former Representative Harrington and by Senators Kennedy and Durkin, and Senator Bellmon's proposed National Student Loan Bank (NSLB). Because that report is self-explanatory, I will not dwell on its conclusions here.

I would like to consider, first, the context within which issues of student loan policy arise. For at least two decades an important, and increasingly dominant, objective in the development of federal higher education policy has been the facilitation of "access" to educational opportunities. The inefficiencies and inequities perceived to be associated with prevailing terms of access have provided the primary rationales for this public policy orientation.

First, *social or external benefits* may flow from certain types of educational investments and from educational investments undertaken by particular classes of students. Because individual decisions on the type and level of educational investment to undertake are based on perceived private benefits, and do not take external benefits into account, they can be expected to result in underinvestment from a social perspective. Considerations of this sort have been offered as justifications for general or targetted subsidies to at least some components (students or institutions) of the higher education system.

A second, very different issue derives from what are commonly characterized as *market failures*. The problem here is that individuals face constraints that unnecessarily preclude educational investments which they would choose to make under more ideal circumstances. A panoply of market failures that might give rise to inefficiency in the level or composition of educational (or, more generally, human capital) investments can be suggested: monopoly or collusive oligopoly on the part of suppliers of educational services, barriers to or arbitrary prerequisites for entry into various occupations imposed by similarly collusive and monopolistic professional associations and unions, capital market imperfections that preclude financing of educational investments on terms comparable to those of other investments, and "insurance market" failures that prevent shifting or pooling of the risks of educational investments. Each of these can reasonably be expected to be a significant source of inefficiency, resulting in a misallocation of resources to and within education and providing a justification for policy action.

In addition to these efficiency arguments for federal action, equity considerations enter the debate. The equity issue commonly arises from an observed association between family income and wealth, on one hand, and rates of educational participation, on the other. However, if education represented a pure consumption good, and if those with less income and wealth chose to consume less education than those with greater income and wealth, just as they choose to consume less housing, less expensive food, and so on, then differential access to (consumption of) education would constitute no greater an inequity than differential access to any other source of satisfaction. Thus, the issue of equity with respect to access to education, as distinct from access to income and wealth generally, can arise only if education is inefficiently provided -- if market failures impinge disproportionately on those with less income and wealth. What appears to be an "equity and efficiency" problem can be viewed ultimately in purely efficiency terms: because of market failures (such as inadequate access to capital markets), individuals, especially those with less income and wealth, underinvest in human capital. Equity considerations can arise only as a byproduct of more fundamental inefficiencies that differentially affect individuals with different financial capabilities.

Capital market failures provide the primary focus of discussion here. These can generally be expected to result in lower levels of educational investment than would be observed if access to capital markets could be provied on a nondiscriminatory basis vis-a-vis other types of investments. Clearly, however, the consequences of capital market imperfections will be less serious for the wealthy than for the poor. Would-be students from high income-wealth families enjoy ready access to funds for educational investment within the family, at implicit interest rates comparable to those that would be incurred in financing other investments. Even if high income families hold their wealth in relatively illiquid forms (such as owner-occupied housing), it is possible for a family to finance the education of its offspring by using such illiquid assets as collateral for a loan. This choice simply represents a portfolio decision on the part of the family unit.

In contrast, potential students from low income-wealth families face virtually nonexistent private capital market opportunities. The student without direct or indirect claim on other assets can offer only his future earnings as security to a lender. However, although higher education represents an investment by the individual in human capital that will give rise to a flow of future earnings, constitutional strictures against involuntary servitude and associated bankruptcy laws render this asset effectively valueless as collateral. As a result, capital market access is either foreclosed or is available only on terms that are so unfavorable, with respect to the cost of funds, terms of repayment, and so on, as to render an otherwise attractive educational investment economically undesirable.

If federal student loan policy has evolved in response to private capital market failures, its objective must be to equalize the terms on which educational and other investments can be financed, taking into account the unique characteristics of education as an investment. Existing programs have failed to achieve this goal.

To a greater or lesser extent, the two existing broad-based programs, NDSL and GSL, share the following dysfunctional characteristics:

1. inordinately low borrowing limits,
2. arbitrary and discriminatory rationing of access to funds, by private lenders for GSL and by financial aid officers for NDSL, and
3. concentration of the burden of loan repayment (generally in equal or declining installments) over a relatively short period (ten years or less) immediately after schooling, when earnings are lowest and when the costs of career and family formation are incurred.

Access to the capital market as a means of financing educational investments can be meaningfully enhanced only if each of these features is improved. Specifically:

(1) Effective capital market access requires that individuals can borrow up to the full cost of schooling, net of grant aid but inclusive of reasonable living costs. Scheduled or anticipated parental contributions should not be taken into account, because, contrary to the assumption underlying conventional needs analysis, differences in family income and wealth may not provide an accurate index of differences in family resources (either outright transfers or temporary loans) available to students.

(2) Capital supply should be sufficient to insure that all individuals have the real opportunity to borrow, without imposing such arbitrary and discriminatory considerations as the existence of a banking relationship, or even a throw of the dice.

(3) Because the returns to the educational investment accrue over a lifetime of labor force participation, individuals should be permitted to amortize the costs of the investment over a suitably long period, at least 20 or 30 years for those with relatively low incomes.

Notwithstanding their serious inadequacies, existing programs have been extremely expensive. At its inception in the late 1960s, the privately-capitalized GSL program appeared remarkably low cost by comparison with the appropriation-dependent NDSL program. That appearance of frugality, however, was achieved primarily by deferring very substantial costs of interest subsidies and default coverage to the future. Now, more than a decade later, that future has become the present.

The problem with both programs stems from the failure to appropriately recognize and quantify the costs of these programs as part of the federal budgetary process. The true federal cost of a loan is equal to the amount borrowed plus the present value of all subsequent costs less the present value of all future repayment revenues. This is the cost that should be recognized at the time the loan is made. However, under NDSL the entire principal of the loan is treated as a federal cost at the time of its appropriation, while GSL appears to be costless until interest subsidies and default and mortality costs are eventually incurred. In both cases, the true costs to the public fisc are exceedingly high, equal to at least 45 percent of the principal of a GSL and 60 percent of the principal of an NDSL.

In general, it can be argued that loans constitute a highly inefficient mechanism by which to subsidize schooling. The behavioral effects of loan subsidies, compared with those of direct subsidies not tied to borrowing, inevitably reduce the welfare of the actual or potential student. Moreover, the excessive demand for borrowed funds induced by loan subsidies has contributed to the imposition of inadequate borrowing limits and to loan rationing, as discussed above, necessarily adversely affecting those whose need for these funds is greatest.

Rather than reducing these subsidies, thus permitting the liberalization of the terms of access to borrowed funds, recent modifications in the GSL program have moved in a diametrically opposed direction. While rejecting tuition tax credits, the last Congress gave affluent families access to even greater financial benefits by eliminating the income ceiling on federal assumption of the full interest costs of GSL loans during the schooling period. The consequences will quickly become apparent as zero-interest student loans, in amounts up to $2,500 per year, are substituted for auto loans and other consumer credit carrying interest rates of 12 to 20 percent. The resultant increase in the demand for GSL loans on the part of the affluent will also cause even more discriminatory rationing of limited funds by private lenders.

Although recognizing the unacceptability of the current situation, the Carter Administration has thus far failed to propose concrete, meaningful reforms. The higher education establishment is immobilized by the clash between those who view any loans as a threat to direct state and federal subsidies to institutions and students, and those who would use grants masquerading as loans to achieve even greater public subsidization of higher education and to enhance the competitive position of private vis-a-vis public institutions.

In this context, the responsibility for action has fallen by default to the Congress. Representative Andrew Maguire, initially in association with the late Representative William Steiger, has taken this responsibility seriously, proposing GSL modifications that would greatly improve capital market access. The Fair Access to Higher Education Act would:

(1) go far to eliminate lender discrimination in the allocation of GSL funds, but continue to place primary reliance on private capital markets. Student loans should compete for funds with other private investments, not with the full spectrum of currrent federal demands, direct and indirect, on the economy. However, all students should have equal standing in this competition.

(2) key repayments to borrower incomes and significantly lengthen the repayment period for those with low incomes. In this regard, the Maguire proposal is superior to other broad-based income-contingent-repayment loan proposals, which would group persons with very different income expectations. Under FAHE, those borrowers expecting high incomes would not have to repay the loans of those expecting low incomes, because almost all borrowers would fully requite their obligations in 20 years or less. If it is desirable to reduce the ultimate student loan repayment burden of low income individuals, the sacrifice should be borne by the more affluent generally, not by only that subset of the affluent who borrowed for educational purposes. Only if borrowers can be assigned at the time of borrowing to groups that share common income expectations is it desirable to distribute the ultimate burden of loan repayment by eventual ability to pay.

(3) increase permissible levels of borrowing. I would advocate further liberalization in this dimension, but the proposal does recognize the inadequacy of current borrowing limits for many classes of students.

(4) greatly reduce the costs of administration, improve collection procedures, and reduce defaults.

Although the Maguire proposal would not greatly reduce the degree of federal subsidization, it would achieve significant other improvements without increasing relative levels of subsidy. Features of the proposal that increase costs would be offset by the provision for interest accrual over the schooling period, a feature that would also reduce the artificial incentive now confronting students to substitute zero-interest loans for other sources of funds.

Additional changes in the Guaranteed Student Loan program could be advocated, most notably adoption of a floating student loan interest rate keyed to the market interest rate and recovering the full costs of the program. However, Representative Maguire has taken a very important and unambiguously positive step with introduction of the Fair Access to Higher Education Act.

STATEMENT OF STEPHEN P. DRESCH, CHAIRMAN, INSTITUTE FOR DEMOGRAPHIC AND ECONOMIC STUDIES, INC., NEW HAVEN, CONN.

Mr. DRESCH. Thank you, Mr. Chairman.

I appreciate the opportunity to appear here to discuss current and proposed Federal student-loan programs. I should indicate at the outset that while I have spent a substantial amount of time over the last 6 or 8 months working with members of Congressman Maguire's staff and Congressman Maguire himself on this subject, I am really not here as a representative or advocate, narrowly speaking, for the Maguire legislation, the Fair Access to Higher Education Act. However, as I will indicate, I think it is an eminently supportable proposal vis-a-vis the alternatives currently confronting the Congress.

Before turning to the details of these programs—and I anticipate from some of the questions that the details and the more narrowly financial aspects may be of more interest than some of the things I discuss in the prepared statement—I would like to consider first the broader context within which we approach problems of higher education policy. I think there are two arguments for Federal involvement in the higher education market, two primary characteristics of the higher education market that differentiate it from the hula-hoop market.

One concerns external benefits that derive from education, and that the individual doesn't consider in making the educational investment. These benefits have been, the rationale for many subsidy programs, including the basic educational opportunity grants and targeted subsidies to health professional students.

This obviously is not the problem that we are trying to deal with in the case of Federal student-loan programs. A second, very different issue and a very difficult problem derives from what an economist would characterize as market failures. For whatever reasons, particular markets fail to accommodate or impinge unnecessarily upon the educational investments that students choose to make.

Specifically, in the case of capital markets, the problem that we confront is that students do not have access to means of financing educational investments on terms comparable to those which confront other types of investors. It seems to me that fundamental objective of student-loan policy would be to perfect capital market access by terms of equalizing the terms. If it is desirable to subsidize schooling, then it is desirable to subsidize schooling directly, not indirectly, through student loan programs. I think in this I might have some disagreement from Congressman Maguire possibly. But taking this position, how would one evaluate the two broad-based existing programs, the NDSL program, and the guaranteed student loan program?

I think that fundamentally these programs have failed. They have failed on three counts: (1) inordinately low borrowing limits, (2) arbitrary and discriminatory access to funds from private lenders in the case of GSL and financial aid officers for NDSL, and (3) concentration of the burden of loan repayments generally in declining or equal installments, during the 10 years or less immediately following schooling, when salaries are lowest. We have to fundamentally improve the characteristics of loans in these dimensions before we can really pretend that we have done anything substantial to equalize the terms of access to capital for the financing of education vis-a-vis other forms of investment.

Now, specifically, effective capital market access requires that individuals at least be able to borrow up to the full costs of schooling, net of grant aid but inclusive of reasonable living costs. Here I would say that parental contributions should not be taken into account because, contrary to the assumptions underlying conventional needs analysis, differences in family income and wealth may not provide an accurate index of differences in family resources, whether outright transfers or loans, that are available to students.

Second, capital supply should be sufficient to insure that all individuals have the real opportunity to borrow, without imposing such arbitrary and discriminatory considerations as the existence of a banking relationship, or even a throw of the dice.

Very often, the access to loans is very random, and depends on such factors as where one happens to be in a queue, and whether a school happens to have exhausted its flow of funds in a particular year. The receipt of more rather than less subsidized loans is similarly determined on an arbitrary basis, as one can verify by discussing with any financial aid officers or students how the decision is made to give students direct loans at 3 percent interest or guaranteed loans at 7 percent. In any event, adequate access to capital is universal access to capital.

Third, because the returns to the educational investment accrue over a lifetime of labor force participation, individuals should be permitted to amortize the costs of the investment over a suitably long period, at least 20 or 30 years for those with relatively low incomes.

Notwithstanding their serious inadequacies, existing programs have been extremely expensive. At its inception in the late 1960's, the privately capitalized GSL program appeared remarkably low cost compared with the appropriation dependent NDSL program. That appearance of frugality, however, was achieved primarily by deferring very substantial costs of interest subsidies and default coverage to the future. Now, more than a decade later, that future has become the present.

The problem with both programs stems from the failure to appropriately recognize and quantify the costs of these programs as part of the Federal budgetary process. The true Federal cost of a loan is equal to the amount borrowed plus the present value of all subsequent costs less the present value of all future repayment revenues. This is the amount that the Government would have to pay the bank if the bank wanted to call it quits with the Federal Government, and the bank would agree to take whatever payments came from students.

However, under the NDSL program, this is not the cost that is taken into account. Rather, the full principal costs have been treated as Federal costs at the time that the principal is appropriated. So $1 of loans requires a Federal cost of $1, ignoring the fact that students are going to make repayments—admittedly not terribly valuable payments on a loan which provides for interest of 3 percent, when competitive loans would be 12 percent.

GSL, on the other hand, appears to be costless until interest subsidies and default and mortality costs are eventually incurred. In both cases, however, the true costs to the public are exceedingly high, equal to at least 45 percent of the principal of a GSL and 60 percent of the principal of an NDSL. I put these numbers on the table, although I wouldn't say that they are absolutely correct. I think the relative orders of magnitude are probably reasonably accurate and certainly the comparison between the two programs is accurate.

In general, it can be argued that loans constitute a highly inefficient mechanism by which to subsidize schooling. The behavioral effects of loan subsidies, compared with those of direct subsidies not tied to borrowing, inevitably reduce the welfare of the actual or potential student. Moreover, the excessive demand for borrowed funds induced by loan subsidies has contributed to the imposition of inadequate borrowing limits and to loan rationing, as discussed above, necessarily adversely affecting those whose need for these funds is greatest: Those, for example, who don't have access to the normally scheduled parental contribution.

Rather than reducing these subsidies, thus permitting the liberalization of the terms of access to borrowed funds, recent modifications in the GSL program have moved in a diametrically opposed direction. While rejecting tuition tax credits, the last Congress gave affluent families access to even greater financial benefits by eliminating the income ceiling on Federal assumption of the full interest costs of GSL loans during the schooling period. I think the U.S. Office of Education is anticipating a 4 to 5 percent increase in the GSL loan volume in the coming years. The consequences will become apparent as zero-interest student loans, in amounts up to $2,500 per year, are substituted for auto loans and other consumer credit carrying interest rates of 12 to 20 percent. The resultant increase in the demand for GSL loans on the part of the affluent will also cause even more discriminatory rationing of limited funds by private lenders.

Although recognizing the unacceptability of the current situation, the Carter administration has thus far failed to propose concrete, meaningful reforms. The higher education establishment is immobilized by the clash between those who view any loans as a threat to direct State and Federal subsidies to institutions and students, and those who would use grants masquerading as loans to achieve even greater public subsidization of higher education and to enhance the competitive position of private vis-a-vis public institutions. The latter objective I don't disagree with, but I am opposed to using grants masquerading as loans as the mechanism to achieve it.

In this context, the responsibility for action has fallen by default to the Congress. Representative Andrew Maguire, initially in association with the late Representative William Steiger, has taken this responsibility seriously, proposing GSL modifications that would greatly improve capital market access. The Fair Access to Higher Education Act would:

First, go far to eliminate lender discrimination in the allocation of GSL funds, but continue to place primary reliance on private capital markets. Student loans should compete for funds with other private investments, not with the full spectrum of current Federal demands on the economy. However, all students should have equal standing in this competition.

Second, the Fair Access to Higher Education Act would key repayments to borrower incomes and significantly lengthen the repayment period for those with low incomes. In this regard, the Maguire proposal is superior to other broad-based income-contingent-repayment loan proposals, which would group persons with very different income expectations, pooling the loan repayment. Under the Fair Access to Higher Education Act, those borrowers expecting high incomes would not have to repay the loans of those expecting low incomes, because almost all borrowers would fully requite their obligations in 20 years or less. If it is desirable to reduce the ultimate student loan repayment burden of low-income individuals, the sacrifice should be borne by the more affluent generally, not by only that subset of the affluent who borrowed for educational purposes. Only if borrowers can be assigned at the time of borrowing to groups that share common income expectations is it desirable to distribute the ultimate burden of loan repayment by eventual ability to pay.

Third, this proposal would increase permissible levels of borrowing. I would advocate further liberalization in this dimension, but the proposal does recognize the inadequacy of current borrowing limits for many classes of students.

Finally, the proposal would greatly reduce the costs of administration, improve collection procedures, and reduce defaults, which is one of the primary reasons for private capital market failure in the first place.

I could go into further detail on this, but I think that although the Maguire proposal would not greatly reduce the degree of Federal subsidization, it would achieve significant other improvements without increasing relative levels of subsidy. Features of the proposal that increase costs would be offset by the provision for interest accrual over the schooling period, a feature that would also reduce the artificial incentive now confronting students to substitute zero-interest loans for other sources of funds.

Additional changes in the guaranteed student loan program could be advocated, most notably adoption of a floating student loan interest rate keyed to the market interest rate and recovering the full costs of the program. However, Representative Maguire has taken a very important and unambiguously positive step with introduction of the Fair Access to Higher Education Act.

Thank you.

Mr. FORD. Thank you. Have you been consulting with somebody over at OMB?

Mr. DRESCH. I haven't been asked.

Mr. FORD. The only time I have heard about the idea of floating a student loan interest rate on GSL to recover the full cost is a rumor that came to me recently that somebody over there thinks this would be a nice way to balance the books.

Mr. DRESCH. I wouldn't advocate it as a device to balance the books. I am not advocating a reduction in subsidies to higher education per se. That is a separate issue. The question is, is the student loan route a desirable mechanism by which to subsidize schooling. I suggest that there are very deleterious consequences of highly subsidized student loans. In the first place, it distorts the apparent degree of subsidy. The Congress should be aware of the degree of subsidies in higher education, and should neither over nor understate that through the specific terms of its loan programs.

Secondly, highly subsidized student loans encourage a substitution of loans for other forms of support. Take a student considering whether to work part time during the schooling period or to borrow. If you took the loan subsidy and gave it directly, for example in cash, he would prefer to work rather than borrow. However, receiving the loan subsidy directly does not distort the individual choices with respect to the mechanism for financing the residual cost of schooling—for example, work versus borrowing. I think if you want to subsidize schooling, it should be directly—you should know what you are doing, and you should know the amount of the subsidy involved.

There is another dimension of loan subsidies, that comes up repeatedly. I think it would appear in a particularly vivid form with respect to the proposal of President Silber, of Boston University, of a tuition advance fund which at the margin would create a loan that would be, in effect, 85 percent grant and 15 percent loan. For example, if a person taking $4,000 through the Silber tuition advance fund instead borrowed $5,000, he would, in effect, repay only about $17 per $100 advanced. Thus, if an institution increased its prices by $1,000, and this program were a mechanism by which the student could finance that additional cost, the student would, in effect, be forced to bear only 17 percent of the total increase in cost. That strikes me as an obviously undesirable feature of the loan program. You don't want to create incentives for institutions to increase costs with effectively no impact or a trivial impact on the student who nominally is bearing those costs.

Mr. Ford. On page 5 of your statement, you talk about the fact that we have increased the subsidies, and you mention specifically—and we have heard this from others—you say:

> While rejecting tuition tax credits, the last Congress gave affluent families access to even greater financial benefits by eliminating the income ceiling on Federal assumption of the full interest costs of GSL loans during the schooling period. The consequences will quickly become apparent as zero-interest student loans, in amounts up to $2,500 per year, are substituted for auto loans and other consumer credit carrying interest rates of 12 to 20 percent. The resultant increase in the demand for GSL loans on the part of the affluent will also cause even more discriminatory rationing of limited funds by private lenders.

You may have people who agree with you, and we have seen the stories in the newspaper about how affluent people are going to get out to get this low cost money instead of borrowing money for the Cadillac. They will borrow the $2,500 with a student loan.

Mr. Dresch. It is a complex question. How do you identify what the money was borrowed for, if the family is paying $8,000 for a Cadillac and $8,000 for schooling? I am not suggesting purposeful fraud. I am saying you have created an incentive that will be a benefit to the families who borrow under the program.

Mr. Ford. If one looks at the question that was before us with the advocacy of tuition tax credits, it was predicated on the assumption that while, as you stated earlier in your statement, the needs analysis that we have been using for various programs assumed that at a certain level of family income the need drops off or disappears. They are unrealistic analyses, and the reality of what was coming through to Members of the Congress, both advocates and opponents, was a strong feeling on the part of people who were blocked from assistance by this needs analysis picture. While they might appear to be in pretty good shape in terms of actual cash to meet the expected contribution by the family, they didn't have the cash, and what they needed was a way to get some money back into the family resources that would actually float it.

They can't go out and remortgage the house or sell it and move into public housing to capture that kind of asset. They might appear to have a lot of assets on paper that are not available or at least the family is unwilling to invest in a child's education as distinguished from the other things, like the new car or other types of consumer goods they feel are or benefit and need to the rest of the family.

So the objective still remains the same, to provide access for someone who would otherwise not have access because the cash isn't available.

Having reached that conclusion, however, you say that that presupposes that it will start a run on the bank by affluent people, and that is going to reduce the availability of funds for lower income people, but the earlier part of your statement seems to imply, as did Mr. Maguire's statement, that GSL is not serving low-income people to begin with.

Mr. **Dresch.** I think GSL is not serving students adequately, to begin with. Much of the burden has been disproportionately borne by low-income people. The question is, what is this change going to do to relative status of different groups in the system? I think prior to this change, and it is a problem I think Congress——

Mr. **Ford.** That is the lack of access to GSL has been because students have applied for GSL loans and been turned down or because students didn't know how to apply or didn't have access in terms of working knowledge of the availability of funds through the GSL.

Mr. **Dresch.** I am not the ideal witness to ask that question, I am afraid.

Mr. **Ford.** You draw a strong conclusion about lack of access, and you must have had something behind that. You came to the conclusion that lack of access has existed; that it still exists.

Mr. **Dresch.** I believe that is the case.

Mr. **Ford.** We assume that is correct, and I don't think from the beginning of the program we have assumed anything different. From time to time we have tinkered with the program, trying to deal with what people identified to as the reasons for that lack of access.

What did you find to be the major reasons why there is now both a rationing, and I assume when you use the word rationing, that you are talking about what everybody else has been talking about. While you may live in one particular area where banks have a particular attitude in connection with the community, you may have adequate access, but if you live in another part of the country, whether you are affluent or poor, banks are not into student loans. The District of Columbia is an extreme case, but not all that extreme, because we keep throwing their name around, but Colorado is virtually out of the guaranteed student-loan program to the extent that some people in this town are considering the kind of drastic action that was taken with the District of Columbia.

How does that fit into this rationing of the funds and lack of access to capital in your reaching your conclusions? To what extent is that really the most important factor?

Mr. DRESCH. I think there are several problems that are being merged here. Access to capital is a serious problem. It was clearly the problem which the national direct student loan program and later the guaranteed student loan program were directed to: that the private capital market was not servicing the clientele of what an economist would characterize as human capital investors. If you wanted to buy a house, you could easily find a lender, if you wanted to build a factory, you could, with more or less difficulty, find lenders, but if you wanted to invest in schooling, lenders were not readily available.

In the first place, what does a student have as collateral for this loan? Only himself. The 13th amendment and associated bankruptcy laws in effect prevent the student from offering that collateral for the loan, for obvious reasons. The guaranteed student loan program in its name recognizes that the fundamental problem was that there was no collateralized asset which could be claimed by the lender, and the Federal guarantee stood in its place.

One of the problems with the program is that until the relatively recent past we had the problem of cyclical instability in the availability of capital. With the extension of the interest allowance subsidy on top of the 7-percent student interest rate, and with the introduction of Sallie Mae as the secondary marketing entity in the system, much of that problem has been reduced.

Even so, student loans for many types of lenders have not been highly profitable undertakings, which I think explains the relative hesitation. It goes back to the specific characteristics of students as investors. If you finance a plant, you know where it is, and it is stationary. If you finance a student, he may live in Ohio, go to school in Connecticut, and ultimately reside in California, creating an entirely new range of problems in maintaining borrower/lender contact, as well as such problems as of income instability, which, although temporary, may put a student into effective default.

When you make a personal loan for a car, in the first place you do a credit check: the borrower is employed, has been employed for a period of time, and has anticipatable income. You have reasonable prospect that income will continue to be accrued over the period of this outstanding obligation, and the borrower will be able to pay. When you make a loan to a student, you have no idea what the income will be at any particular point in time. It may be low in some years and high in other years. We have a competitive type of lending context where student loans must compete for funds with other loans. These problems have deterred private participation, either in the private market or within the provisions of the Federal loan programs. I think these problems do adversely affect a broad spectrum of classes of students in confronting alternative educational opportunities.

If parents don't provide what they are scheduled to provide and if the student can't find employment in a period of 18 percent unemployment rates for recent high school graduates, then unless the student can borrow, his educational investment is, in effect, foreclosed.

So I think that the problem of loan availability is a serious problem in its own right, completely apart from the subsidy. I understand the concern on the part of the middle and upper income groups with respect to the burden of cost of financing schooling. When one takes into account the non-governmental as well as governmental sources of support, grants aid, and so on, the costs of schooling are probably less burdensome at lower income levels than at middle and higher income levels. That is a judgment that presumably Congress could come to and alleviate in a more or less direct way by tuition tax credits. That may be the appropriate way to deal with the problem, if reducing the burden for middle or upper income families is deemed to be an objective.

Given that decision, I think that the problem you should be dealing with through the loan program is providing people with access to means of financing, not providing large grants masquerading as loans. Take the current GSL program. Under extremely conservative assumptions, assumptions that suggest the total cost probably would be significantly higher—although certainly not $1,000 per $1,000 loan—one can estimate that the cost to the Federal Government of a $1,000 loan made in September 1978, will be, in effect, around $4,500, so what the Federal Government has done is make it possible for a person to get a loan of $550 and a grant of $450. If you want to give the person that grant, give it to him directly rather than calling it a loan which he is going to repay when, in fact, the repayments will fall far short of requiting that obligation in any conventional sense.

Mr. FORD. Your final sentence on page 5 says:

> The resultant increase in the demand for GSL loans on the part of the affluent will also cause even more discriminatory rationing of limited funds by private lenders.

Assuming that to be true, and that is based on the assumption that a lot of people are going to buy this as a desirable loophole, what should we do to meet that, and how does the proposal that we have before us today deal with that problem?

Mr. DRESCH. I think the most effective means by which to deal with the problem is to impose interest over the schooling period; these funds are not free over the period a student is in school, and he should recognize that there is that cost. If the returns to the students educational investments are not sufficient to repay the full cost of that loan, including interest over the schooling period, maybe he should legitimately consider not making that educational investment, or if society feels that he, in fact, should make that educational investment, society should subsidize it directly.

Clearly, imposing interest over the schooling period—as the Fair Access to Higher Education Act does—would, greatly reduce, although probably not eliminate, this incentive to substitute subsidized credit for other unsubsidized credit. However, there still is a subsidy, and a 7 percent, as opposed to 12 percent, interest rate. I happen to be in the process of a second mortgage on my house, primarily because I think I can make more than the 11½ percent the bank is willing to lend to me at, but given those levels of cost for other forms of access to capital, clearly there still is incentive in the guaranteed student loan program to subsitute guaranteed student loans for other mechanisms for financing schooling or other forms of debt.

I think the only way to eliminate that is to move beyond the current provisions of the Fair Access Act, to floating student interest rates, as I mentioned, disregarding the Federal budgetary implications of that.

Mr. FORD. You would suggest that it be changed so that the full 13 percent, which is obviously going to be the level because we are moving to add another percent, would accrue to the borrower from the time of the borrowing and not be deferred during education. This would slow down the people who would be tempted to use this money to offset some other kind of borrowing.

Would you do that for all students, or would you reimpose some kind of income determination of who can afford 13 percent and who cannot?

Mr. DRESCH. When you make a decision about who can afford 13 percent and who can't, you are looking at the parents of the students and in the majority of cases the parents are not going to be repaying the loan. Therefore, I see very little reason for distinguishing between higher and lower income students with respect to the terms of borrowing under any of these programs. Simply because one happens to be the child of an affluent family doesn't mean that one's income is going to be high relative to that of one's classmate at Yale or Ohio State who happens to have poorer parents. So, it seems to me that this is a discriminatory feature.

With respect to income and ability to pay on the part of the parents, it seems to me that we deal with that, or at least have attempted to, through the grant program. I would argue that that is the appropriate point at which to make those considerations.

Mr. FORD. Thank you very much.

Mr. Buchanan?

Mr. BUCHANAN. Thank you, Mr. Chairman.

In your written statement on page 17, Doctor, you say: "The Bellmon NSLB proposal would result in vastly reduced relative levels of subsidy, with an effective grant of between $191 and $217, again depending on the assumed rate of secular income growth." And then, to illustrate that, in your model in table 4, "Subsidy per $1,000 loaned, for various proposals, academic year 1979-80," you show subsidy per thousand dollars borrowed for growth rate of 5 percent under GSL as $456; under NDSL as $584; under the Maguire proposal as $464, and under NSLB only $217, or less than half. At the 17 percent rate, it is even weighted more in favor of NSLB and also at the 9 percent rate.

Also, on table 6, which is level of percentage change in cost per $1,000 loaned for various proposals academic year 1979-80, for the various proposals the percent change in cost compared with NDSL, you show that the Maguire approach would be a minus 24, but the NSLB would be a minus 68 reduction in cost, and for GSL, the Maguire proposal minus 1, while the NSLB would be minus 58.

Now, given those figures from those tables of dramatically reduced cost, let me ask you a couple of questions.

In making that analysis and those projections, are you taking into account the growth in cost entailed in setting up the organization, of NSLB salaries, et cetera, or are you not?

Mr. **Dresch**. No, not the really front-end extraordinary costs. I have tried to take into account administrative costs, admittedly a crude estimate, but not the one-time startup cost of lawyers, et cetera.

Mr. **Buchanan**. What about personnel cost?

Mr. **Dresch**. That would be taken into account.

Mr. **Buchanan**. If that is the case, I am intrigued that you came down as you did, since, according to your chart, it would seem dramatically less expensive approach.

Mr. **Dresch**. I think you are right. There are two considerations. One I really have not addressed at all this morning, except obliquely, and that is the question of the locus of action in this area. I think there are very strong reasons for not moving in the directions of a national student loan bank, of a single unified standardized system. This is a market that deals with an incredible range of people, a clientele that is remarkably diverse, ranging from stidemts in 6-month, 8-month, 1 year proprietary programs, to people in 2-year colleges, 4-year colleges, graduate programs, divinity schools, and medical schools. I think one can strongly argue that the student loan market should respond to these differences, and that effectively dealing with or serving the needs of this very diverse group of students requires differential treatment, not necessarily differences in the degrees of subsidy and the costs, and so on, but differences in provisions for the term of repayment of the loan.

But if that is true, it seems to me that there are strong arguments for not moving into a single national student loan bank. What we want to encourage is a system that can adapt in diverse ways to meet diverse clientele. My objection to the Bellmon proposal is primarily a structural objection.

A second issue is that depending precisely on how the Bellmon national student loan bank were financed, it would appear to be in the short run an incredibly costly enterprise. This objection again reflects my desire to try to get the student loan programs, to the degree to which they are loan programs and not hidden grant programs, off of the Federal budget.

With respect to the specific characteristics of the instruments, itself, I think that there are strong arguments that the Bellmon proposal and the Maguire proposal are similar in the way they would confront the student, in a dollars and cents sense, although the administrative mechanisms are all different. However, the programs differ fundamentally in one dimension, and that is the interest rate. The Bellmon interest rate would approximate much more closely and would float with the cost of funds, so it would approximate what I have characterized as the competitive market interest rate.

When I undertook this analysis, the Federal Treasury bill rate was running at, I think, about 8 percent, and I assumed that an efficienly functioning private market would extend credit to students or student loan programs at something approximating 10 percent, if this were not financed through a Federal instrumentality such as the Student Loan Marketing Association. Thus, the Bellmon proposal, which would have imposed interest rates on students equal to the Federal Treasury bill rate plus 1 percent, would have resulted in a student interest rate of 9 percent. This comes very close to my assumed competitive rate of 10 percent and hence indicates a very low level of subsidy relatively speaking, and I think that is desirable, as I suggested. It is the one dimension in which I would strongly urge going beyond the Maguire proposal, to provide for a floating student loan interest rate which would more closely correspond to the cost of funds.

I should indicate that there is a reason why I stress floating student interest rates. Imagine a student under current conditions becoming obligated to a loan carrying an interest rate of 13 percent and assume that somehow the administration, the current administration or the next administration, happened to be successful in reducing rates of inflation, and hence interest rates (which can be demonstrated to move relatively closely together). We can have a student whose income is not growing, at the rates at which income has grown in the last few years, still saddled with a very high interest debt, so the rate of income growth would be reduced by approximately the reduction in the rate of inflation and yet his obligation would carry this high interest rate.

So if one moves to assess interest rates which do reasonably correspond to the cost of funds, I think one has not only to encourage credit into the system, but also to protect the students; one has to provide for floating interest rates that don't result in the saddling of the former borrower with a very high interest rate obligation.

Mr. **Buchanan**. Based on your research, what would be the increased program costs of extending the payment period and to what extent would they be met by the deferred interest payment?

Mr. **Dresch**. I have that if you will give me just a moment to find it.

My estimate, and I may have to sort of piece this together, my estimate is that the GSL program as it stands involves a subsidy of about $450 per 1,000 borrowed.

Mr. **Ford**. Let me interrupt you there. The administration is telling us that that is closer to $700,000 for a 10-year repayment period. Could you submit for us, so that we can ask them to submit the same information, the basis upon which you made your assumption of 450, so we can compare it with the basis upon which they make their assumption of 700?

Mr. **Dresch**. The details are on table 4 of this paper which gives the default rates, administrative costs, et cetera.

Mr. **Buchanan**. You said at least 450, but that is a long way from 700.

Mr. **Dresch**. I have heard these numbers and I think there are several possible explanations. I assumed a relatively low default rate in the GSL program because I think we have observed default rates which reflect primarily severe mismanagement of the program and the rates will not persist at the rates we have observed over the last few years, assuming reasonably efficient administration. So I did not want to bias the programs as a result of past incompetence.

Second, I think that the administration may well have used higher interest rates than I have used. Even when I did this there was some suggestion that I should use an unsubsidized interest rate of 11½ percent.

When I undertook this analysis, I believe the special allowance was limited. The special allowances plus the 7 percent student interest rate was limited to a total of 12 percent which has now been raised at least temporarily, so it is possible those increases have been taken into account as well.

I really can't speak to the difference beyond that. But I certainly would be prepared to outline in great detail precisely how the computations were made.

Now going back to the question of the increase in cost, my computation, and I may have to qualify this but it is roughly correct, is that stretching out the repayment period would add about $50 to that increase in cost. It may be as low as $35. My original computation for the Maguire-Steiger proposal was that costs would increase from—I may have it here—yes, I think it is about $35 or $40, so in order of magnitude less than 10 percent of the costs of the program.

Mr. BUCHANAN. Thank you very much. I appreciate your testimony and all your research. I have always believed that the motto of the Congress ought to be one that is the motto of the University of Virginia which was founded by my leader, Thomas Jefferson, who was a Repubican-Democrat or a Democrat-Republican.

Mr. PEYSER. Just like me.

Mr. BUCHANAN. One of his statements which is a motto for the school, is

> For here we are not afraid to follow the truth wherever it may lead us, nor to tolerate any error so long as reason is left to combat it.

Mr. FORD. Mr. Peyser.

Mr. PEYSER. Thank you, Mr. Chairman. I am going to be very brief because of the time problem that we are facing.

The one thing I want to restate, you did say in your statement that all students should be given equal opportunity for student loans. I include in that "all" the group that we have been talking a good deal about, middle income and higher income people.

I would like to suggest that the concept that these people are going to utilize these loans because of the increased earning potential presently having that sort of free ride over that 4-year period isn't, I don't really think, a very valid point because you know, even if they were to have $15,000 in loans and they were gathering in this 7 percent earning factor, that is $350 and I don't really—and even if it were doubled it would be $700—I don't really see a so-called high income people, as we are painting them, working this devious route to get another $350 or $700 that they would be deriving by this program.

I see it serving a very valid purpose and a very real need, the removal of the income program.

Mr. DRESCH. I definitely agree. That is why I would not reimpose the income ceiling. I would provide for interest to reduce the discrepancy between the current GSL program and other forms of credit.

Mr. **Peyser**. But that affects all students.

Mr. **Dresch**. I think it should.

Mr. **Peyser**. It does. That is where I have the problem. I think there are students where that could create a problem in the program of having that extra cost, and as you mentioned, you said, well, the education should be worth that or else they perhaps should not participate.

I find myself a little at odds with that comment because it can just reach a point and someone says, I just can't do it and maybe they really should do it.

I would hate to have this 7 percent factor be the factor that pushed them out the window.

Mr. **Dresch**. I would still suggest, sir, that there is an alternative mechanism by which to encourage that educational investment and that is to increase grants available to this particular individual or class of individuals. I think that is a more appropriate device, a direct grant that one can observe rather than an implicit grant through a loan program.

Mr. **Peyser**. Mr. Chairman, I yield back my time.

Mr. **Ford**. Thank you.

Mr. Tauke?

Mr. **Tauke**. Thank you very much for all of the information. Now I really need a quiet room, I think, in which to carefully analyze it.

I am interested in what I believe is the thrust of table 11—that under the Maguire proposal all of the loans would be repaid under a 20-year period.

Mr. **Dresch**. That is a slight overreading of the table.

Mr. **Tauke**. OK, tell me what I should conclude from that. Ninety-six percent would be paid in a 20-year period?

Mr. **Dresch**. What I have taken are representative income profiles. This entire analysis is based upon an assumed distribution of borrowers over lifetime earning histories. I have taken three of those as representative, what I have characterized as low, middle, and high income individuals in terms of lifetime income after schooling. The low income corresponds to roughly the lower quartile income. Similarly, high income the upper quartile. So 25 percent of the people have incomes at or below the low income profiles. Those individuals would be repaying their loans in 19 or more years under these assumptions about income growth.

I should say the estimated repayments are not terribly sensitive to the assumptions made about the rates of income growth over the period. So there would be significant numbers of people who would be repaying in 20 and perhaps even 25 years, perhaps as many as 15 percent of all borrowers.

In general, they would account for less than a pro rata share of the original borrowing because they would generally be those who had dropped out of school before completing and hence would have lower levels of debt, and assuming equal borrowing rates in all years of school and taking into account attrition over the schooling period.

In this context, you can look at the total repayments you are ever going to receive under any of these programs. Under the

Maguire program, for example, I think I computed that roughly 96 percent of the funds that you will ever receive will have been received by the 20th year.

Mr. TAUKE. Are you assuming in those statistics that everybody who graduated from college or graduate school or ceases his or her education, is going to immediately enter the work force?

Mr. DRESCH. I guess implicit in this is the assumption that all will enter the work force. Let me qualify that slightly. The income profiles were derived from the 1970 census orginally and have been updated using the current population survey. Basically it is the same profile, with adjustments to make it correspond to income growth in the intervening period.

Mr. TAUKE. Do we have any idea what percent do enter the work force upon graduation?

Mr. DRESCH. With respect to Ph. D.'s, roughly 98 percent are employed.

Mr. TAUKE. What about B.A.'s?

Mr. DRESCH. That is a good question. I could not give you a number, but I think one could get that information from BLS.

Mr. TAUKE. Wouldn't it be fair to say that unless there is some kind of a minimum or maximum time requirement on the repayment of loans, that it would be possible under this system for a substantial number of the people to never be able to completely repay the loans?

Mr. DRESCH. When you say substantial number, I think I would probably disagree.

Mr. TAUKE. Do you think it would be out of line to suggest that 20 percent of the people who graduate from college in this country do not enter the work force for more than, let's say, a 2-year period of time during the remainder of their life?

Mr. DRESCH. My guess is that that is an underestimate of that female labor force participation, and I assume that is what you are targeting on.

Mr. TAUKE. I don't want to be sexist about it, but I assume the statistics would show there are many more females who don't enter the work force for a 20-year period upon graduation than males.

Mr. DRESCH. I am sure that is true, but the number of women in the labor force has increased dramatically, particularly for those who are highly educated. I think this is probably a nonproblem, possibly affecting no more than 5 percent of the profiles here. This is a small fraction relative to the total participation.

Mr. TAUKE. Then let's say the person who gets out of school has a $25,000 loan. By the time the accumulated interest is added it would not be difficult to arrive at that figure under this program. Then he or she does not work for 5 years. Similarly, if someone who has accumulated the $18,000 maximum during the first 4 years of college and subsequent 2 years of graduate school and then continues his or her education for another 4 or 5 years, the amount of money that he or she will have borrowed or will be obligated to pay back at the time that person graduates is going to be very, very high.

It appears to me that there are serious problems in all the statistical analyses about payback unless I am missing some provision of the bill. I think maybe you are telling me I am missing a provision of the bill.

Mr. LEVIN. Congressman, my expression was really related to something I just read and not to something you had said.

Mr. TAUKE. I am sorry. Thank you very much.

Mr. FORD. Thank you very much.

I now call on Bobbi Avancena, legislative assistant to Representative Peter Peyser.

I will yield to the gentleman from New York.

Mr. PEYSER. Thank you, Mr. Chairman.

While Bobbi is approaching the table, I would like to mention that Bobbi has been working as legislative assistant on this legislation and she mentioned to me just a few days ago her own experiences in dealing with the student loan program.

I was so impressed with what she had to say, I urged her to let the committee hear this testimony as well so that they could have a better idea of some of the practical applications and problems that are involved.

So I would like to now ask her to tell her story if she would.

STATEMENT OF MS. BOBBI AVANCENA, LEGISLATIVE ASSISTANT TO HON. PETER PEYSER, REPRESENTATIVE FROM NEW YORK

[Prepared statement of Ms. Avancena follows:]

Statement of Bobbi J. Avancena

Legislative Assistant to Representative Peter A. Peyser

I greatly appreciate the time this Subcommittee has given me this morning to speak about my personal experience with federal financial aid programs for students seeking a higher education.

As a former student borrower who just last week made my last payment on $5,000 worth of student loans, I believe that my personal experience, which is still relevant even with the changes made by the Middle Income Student Assistance Act, might help to put into a concrete human perspective many of the issues that have been discussed by this Subcommittee over the past several weeks.

I grew up and attended public schools in Rockville, Maryland, a suburb of Washington, D.C. My father was a civil servant and my mother, a housewife, did not work. I had two younger brothers.

I graduated in the top four percent of my class. I was also editor of my high school newspaper and president of our school's largest community service club. In short, I believe that I was a good student and had earned the opportunity of attending the college of my choice.

I entered Drew University in Madison, New Jersey in September 1968. The $3,000 tuition plus room, board and miscellaneous expenses was covered by a combination of a DAR history scholarship, a scholarship for selected freshman offered by the college itself, and a $10,000 loan my parents had borrowed from the Government Employees Financial Corporation. That $10,000 was loaned by semester, but was guaranteed to my father to be available each semester for the four years that I was in school.

The summer between my freshman and sophomore year my father died. Our family income to that point was about $20,000. Our new income after his death from civil service suvivor annuities was about $7,500.

Complicating our financial position that summer even further was the fact that my brother who was 11 months younger than I was scheduled to start school that fall.

The week after my father died, my mother filled out the Parents Confidential Statement for the College Scholarship Service to see if I was eligible for what was at the time an Educational Opportunity Grant. In addition to our income, she listed our assets as a house, a modest capecod, valued at $40,000. Unfortunately, also counted as income was the $25,000 in life insurance. That figure was immediately reduced to $17,000 after funeral expenses and several oustanding debts such as paying off our car.

Several weeks later, I received a notice that based on calculations by the College Scholarship Service, my college turned me down for assistance saying that my mother had too much money. This was a real blow to us because the Government Employees Financial Corporation had also cancelled the $10,000 which it said had been lent only to my father.

My mother expected to use some of that $17,000 for my college education that year, but with two younger children and thus 11 more years of college to finance and with an income of only $7,500 she did not believe that the $17,000 should count so heavily against us. Nor did she believe we should be forced to move out of our house.

I understand that I would not be eligible for a Basic Opportunity Grant under the Middle Income Student Assistance Act given this situation today.

After I was turned down for an EOG, I applied for both a guaranteed student loan and a National Direct Student Loan from my school. I remember quite clearly that I was aware of the difference in interest rates between the two types of loans and that while I preferred the three percent rate, I was out to get whatever I could. I was desperate.

I traveled to New Jersey that summer to see my college financial aid officer at Drew University. I remember practically begging for a National Direct Student Loan and being turned down -- again because we had "too much money."

Finally, our bank gave me a $1,000 guaranteed student loan. This however fell far short of the funds I needed.

In order to afford school that year I worked two jobs. I was the college receptionist from 3:00 to 5:00 every afternoon and I worked at a hamburger and chicken fast food restaurant as a waitress from 6:00 to 11:00 every evening during the week. On the weekends, I baby sat.

During the next summer, I worked from 7:30 to 5:00 in a pre-school day care center and from 6:00 to 11:00 in a dairy queen six days a week.

That year I transferred to Douglass College for Women of Rutgers University, a state school, because my expenses would be cut in half.

I financed my two years at Rutgers with earnings from various jobs and some contributions from the little money my mother had. When I graduated from Rutgers, Tufts University Graduate School of Education offered me a $1,500 scholarship which meant that I had to find a way to pay the other $1,500 of the $3,000 tuition as well as living expenses.

I applied for both an NDSL from Tufts and a GSL from a local bank. It was hard to find a bank that would even accept my application. Our bank which had awarded me the $1,000 GSL several years earlier had stopped its participation in the program. Other banks would not accept my application unless our family would open a minimum savings account of about $300. Even then, those banks required a three month wait before processing the GSL application.

As I look back, it strikes me that my chances of getting a loan depended to a great extent on factors that were not in my control such as whether the bank my mother uses participates in the program, whether it suddenly drops out of the program, or whether I was accepted to college early enough in the year to compete with other students for the limited funds our local banks were allocating for the loan program. Perhaps these are some of the elements of chance in receiving aid that the Subcommittee discussed last week.

Because there are so many more students who need GSL's than there is money allocated by banks where I live, there is a real competition for these loans that begins early in the year. For this reason, I could not afford the luxury of first applying for the NDSL from Tufts and then waiting to hear on that loan before applying for the GSL. As a consequence, I was awarded both loans when I intended to borrow only one.

It was a temptation to keep both loans which I did because it meant that for the first time in five years, I could go to school without working. Once again, looking back, I see now that I was using the loan programs as a base of my support as BOG's are intended to do. How many other students are forced into this situation?

I have also wondered how many students are "over awarded" in this way and also why one school, Drew University, would turn me down for an NDSL and another, Tufts University, would give me one and a scholarship as well. If I had known that schools differ so greatly in their financial aid awards, that would have become a factor in my search for schools much earlier on. Certainly, there was a great difference in my selection of schools before and after my father died.

Ten months after I began working on Capitol Hill which was ten months after I finished at Tufts University Graduate School, my banks and Tufts University contacted me about repayment. I owed a total of about $5,000 to these institutions.

At that time, I was making about $485 a month after taxes. I was also helping to pay the tuition of my younger brothers because so much of the little money my mother had went to my education.

Unfortunately for me there is a federal requirement that a minimum of $30 must be paid on each loan . This meant that with three loans I was paying $90 a month which was a big slice of my salary. Interestingly enough, I never remember any discussion of repayment procedures when I secured the loans.

It would have been helpful if the three loans could have been consolidated into one payment of $50 to be paid over a longer period than six years. In this respect, I would have to agree that a student's financia status does not suddenly increase on graduation day. It would certainly have been helpful if there had been some flexibility in the payback schedule

There were other problems with payback. Each bank had different policies at different times for payback. One required a $5.00 fee on late payments and another required a $1.50 late fee. One bank changed its

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payment book several times which was confusing and often led to arguments over how many payments I had made. In one case, a bank claimed that I had not made a payment and threatened to put me in default unless I made the payment and paid the $5.00 late fee. After I did this, the bank found the first payment, but would not refund my late fee. These types of problems are magnified when you have several loans to pay back.

Midway through my payments on the NDSL to Tufts, the college switched to a collection service which proved to be more consistent in its billing procedures.

On the whole I would say that when a student in need is denied a BOG, the proliferation of loans is inevitable and that the current loan structure without some form of consolidation makes payback confusing and sometimes financially impossible.

My experience has shown me that the impact of federal education policy is to help insure access but not choice in pursuing a higher education.

Again, I am thankful for this opportunity to share my concerns.

Ms. Avancena. Mr. Chairman and members of the subcommittee and my boss, Congressman Peyser, I greatly appreciate the time that this subcommittee has given me this morning to speak about my personal experience with Federal financial aid programs for students seeking a higher education.

As a former student borrower who just last week made my last payment on $5,000 worth of student loans, I believe that my personal experience, which is still relevant even with the changes made by the Middle Income Student Assistance Act, might help to put into a concrete human perspective many of the issues that have been discussed by this subcommittee over the past several weeks.

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I graduated in the top 4 percent of my class. I was also editor of my high school newspaper and president of our school's largest community service club. In short, I believe that I was a good student and had earned the opportunity of attending the college of my choice.

I entered Drew University in Madison, N.J., in September 1968. The $3,000 tuition plus room, board, and miscellaneous expenses were covered by a combination of a DAR history scholarship, a scholarship for selected freshmen offered by the college itself, and a $10,000 loan my parents had borrowed from the Government Employees Financial Corporation. That $10,000 was loaned by semester, but was guaranteed to my father to be available each semester for the 4 years that I was in school.

The summer between my freshman and sophomore year my father died. Our family income to that point was about $20,000. Our new income after his death from civil service survivor annuities was about $7,500 for my mother, myself, and my two younger brothers.

Complicating our financial position that summer even further was the fact that my brother, who was 11 months younger than I was, was about to enter college that coming year. There would have been two of us in school at that time and our income, again, was $7,500 a year.

Despite the difficulty at the time, my mother went ahead and filled out the parent's confidential statement a week after my father died for the scholarship service to notify them of the change in our financial status that summer.

At that time, as I said, our income was $7,500, and she also noted our house—which in Montgomery County, Md., at $40,000, you don't get much even 10 years ago—was a modest Cape Cod.

We also had $25,000 in life insurance which was immediately, within a week or two of his death, reduced to $17,000. We had to pay funeral expenses. We had just bought a new car and there were several other charges she wanted to cash out because we only had an income of $7,500 a year.

Several weeks after she filled out these forms I received a notice from my college that based on the calculations by the college scholarship service we were turned down for assistance because they said we had too much money. This was a real blow to us because the Government Employees Financial Corporation had also counted the $10,000 that we had borrowed saying that it had only been lent to my father and not to my mother.

My mother, in all fairness, had expected to use part of that $17,000 that year for my college expenses and also for the expenses of my brother.

But I think it is fair to say that with two younger children, each with 4 years of college to go and myself with 3 more years of college to go, and with an income of $7,500 a year, that she did not believe that the $17,000 should be used so heavily against us, nor did she believe that we should have to move out of our house.

I went through some calculations yesterday with someone from the Congressional Research Service who works on higher education programs which showed that I would not be eligible for a basic opportunity grant today given those same circumstances.

After I was turned down for what was then an educational opportunity grant, and this was in August, I applied for both a national direct student loan from my school and for a guaranteed student loan from my local bank.

Some of the members asked last week whether or not a student is aware of the difference between the 3 percent NDSL and the 7 percent GSL. At the time I remember quite clearly that I was aware of the difference in the rates of the two types of loans and that I obviously preferred the 3 percent, but a student in my situation gets to a point where you will take anything you can get. You apply for any loan that you can get and I was desperate at that point.

That summer I traveled to New Jersey to see my college financial aid officer. He also told me that I could not get a national direct student loan because, again, we had too much money. The only assistance that I received was $1,000 in a guaranteed student loan from our local bank. This obviously fell very far short of the funds that I needed, the $4,800 I needed that year.

I did go to Drew University again that year. In order to afford my school that year I worked two jobs during the year. I was a college receptionist from 3 to 5 o'clock in the afternoon and I worked at a hamburger and chicken fast food restaurant as a waitress from 6 to 11 o'clock every evening during the week. On the weekends I babysat which was when I could do my homework.

During the next summer I worked from 7:30 to 5 p.m. in a preschool day care center and from 6 to 11 p.m. in a Dairy Queen 6 days a week.

For financial reasons, and this was a financially imposed decision, I transferred to Douglass College for Women of Rutgers University. I liked it very much but that cut my expenses in half.

I financed my 2 years at Rutgers with earnings from various jobs and some contributions from the little money my mother had.

When I graduated from Rutgers, Tufts University Graduate School of Education offered me a $1,500 scholarship, which meant that I had to find a way to pay the other $1,500 of the $3,000 tuition as well as living expenses.

I applied for both an NDSL from Tufts and a GSL from a local bank. It was hard to find a bank that would even accept my application. I would have preferred to apply for the national direct

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student loan and waited to hear as to whether I received that loan, but I couldn't do that.

The reason for that was that the competition for guaranteed student loans where I come from in Montgomery County, Md., is very stiff. There are many more students who want those loans than the amount of money that the banks have allocated for those loans.

Therefore, just as soon as you receive your acceptance from a school, you go to a bank and you try to be one of the first just to compete for that loan.

Another problem is that your bank may not be participating for that loan as was the case. We found that out once I received my notification that I was accepted.

We called my bank and they said they pulled out of that program last year so we started calling other banks. We shopped around and they said, you have to transfer at least a minimum of $300 to our bank. We had to make a determination as to which bank, if we transferred our account, was most likely to give me that loan.

Second, they said you had to wait 3 months once you transferred that money before they would even process your application.

As I look back, I know the committee last week was talking about the chance of getting a student loan and I realize that my chance at that time of getting a student loan depended on a number of factors, such as whether the bank that my mother used participated in the program, whether, as it happened in our case, it suddenly dropped out of the program and, third, whether I was accepted to a college early enough in the year to compete with other students for the limited funds our local banks were allocating for the program.

When I graduated from school I worked 6 years after that for my own Congressman from Montgomery County, Md., and I advised parents and students as a part of that job as to what they should do.

The problem was that many of them were not aware of all these factors and they would call us in April when their son or daughter received their acceptance and by that time it was pretty late to start the process of transferring your account to another bank and then waiting 3 months. Most of the banks at that time, by late May or June, are out of their GSLs.

Because there are so many more students who need GSL than there is money in the banks where I live there is a real competition for these loans. I could not afford the luxury of applying for the NDSL first from Tufts and then waiting for the GSL.

As a consequence, I was awarded both loans and I only wanted one loan. It was a temptation to keep both loans, which I did, because it meant for the first time in five years I didn't have to work. I was using the loan programs as a base of my support perhaps as the opportunity grants are intended for.

I sometimes wonder how many other students are forced into this same situation which I think is unintended by the intent of the Federal student loan and grant programs.

I have also wondered how many other students are "over awarded" in this way and also why one school, Drew University, would turn me down for an NDSL and another, Tufts University, would give me one and a scholarship as well.

If I had known that schools differ so greatly in their financial aid awards, that would have become a factor in my search for schools much earlier on. Certainly there was a great difference in my selection of schools before and after my father died.

The last point I wanted to talk about was repayment problems. As I said, last week I made my last payment on $5,000 worth of student loans. Ten months after I began working on Capitol Hill which was 10 months after I finished at Tufts University Graduate School my banks and Tufts University contacted me about repayment. I owed a total of about $5,000 to these institutions.

I contacted the other bank about repayment. I was making $485 after taxes a month in my first job. I was also helping to pay the tuition of my younger brothers because a disproportionate share of my mother's income had been used for my education and I had three student loans and what I didn't know at the time I took the loans out was that there was a Federal requirement that you had to pay $30 for each loan.

So I had $90 to pay for each of those loans which was roughly speaking 20 percent of my income. Then, as I said, I had to help pay for my brothers' tuition.

Looking back, I wish there was some mechanism in repayment, some flexibility where they could take these kinds of considerations into account, but apparently there is not.

Also, interestingly enough, as I have listened again over the last several months, I never remember any discussion of repayment procedures from when I secured the loans either from my banks or from Tufts University. I was thinking that it would have been helpful if I could have repaid those loans at a rate of say $50 a month for 10 years or whatever instead of $90 a month for 6 years.

In this respect I would have to agree again with another conversation the subcommittee had that a student's financial status does not suddenly increase the day that you graduate.

Then there were several other problems with payback. Each bank had different policies at different times. One bank, if you were 5 days late for your payment, they required a $5 late fee. Another bank required $1.50 late fee. Several of the banks would change their coupon books. I would receive one coupon book and rip the payments out and send them in, and they would send another book. Several times this was confusing, and often led to arguments with the bank over when was my last payment.

In one case the bank called me and said I had not made a payment which I was sure I had made, and I wouldn't do this now, but at the time I was younger, and they said we will put you in default unless you pay the payment and $5 late fee, so I did, and then they found my first payment, but they refused to pay back the $5 late fee I paid them.

I guess the point I would like to make is that the more loans you have, the more these problems are magnified.

Also, midway through my payments for the NDSL to Tufts, the college switched to a collection service, and that proved to be more consistent in its billing procedures than did the university, itself. I think Tufts made a wise decision in that respect.

In sum, I would like to say when a student in need is denied a basic opportunity grant or educational opportunity grant, as was my case, the proliferation of loans in my opinion, is inevitable in that the current loan structure, without some form of consolidation, makes payback confusing and in some cases impossible.

My experience has shown me that the impact of Federal education policy is to help insure access but certainly not to insure choice no matter how good a student you were when you entered college.

Again, I am thankful for the opportunity this committee has given me to share my concerns.

Mr. FORD. Thank you very much for your statement. Your experience shows you the impact of the Federal education policy is to help insure access but not choice in pursuing higher education. This is a strong conclusion reached from your own experience, but a very sobering one, because access without choice is not access. The whole foundation upon which these programs have rested from the very beginning is that access has to mean choice as well, or it isn't access.

Thank you very much.

Mr. Peyser?

Mr. PEYSER. Thank you, Mr. Chairman. I think that the testimony we have just heard without question speaks for itself and outlines the problems that students who are really dedicated to getting an education and want to do the right things, the problems that they face, and I think that it is a great asset for us to have this information, and I know we can try to improve as we go along on the very problems that have been faced.

We are now under the 5-minute rule, and I thank Bobbi for giving us this testimony and letting us hear this, and I yield back my time.

Mr. FORD. Thank you.

Chancellor E. T. Dunlap, chairman of the board, Student Loan Marketing Association, and Edward A. Fox, president and chief executive officer, Student Loan Marketing Association.

Dr. DUNLAP. Mr. Chairman, members of the committee, for the sake of time, I think I shall make a very brief oral statement instead of reading this written prepared statement.

Mr. FORD. Without objection, the prepared statement will be inserted in full at this point in the record.

[Prepared statement of Mr. Dunlap follows:]

STUDENT LOAN MARKETING ASSOCIATION

(SALLIE MAE)

A STATEMENT OF ITS PURPOSE,
FUNCTION AND
OPERATING PROGRESS

E. T. Dunlap Chairman
Student Loan Marketing Association

MAY 1979

Established by act of Congress on July 1, 1972, the Student Loan Marketing Association ("SLMA") is a Federally chartered, privately owned corporation. In assessing the purpose and performance of SLMA, one must look to its enabling legislation, the Education Amendments of 1972, which amends the Higher Education Act of 1965. Congress states its purpose in creating SLMA as follows:

> "The Congress hereby declares that it is the purpose of this section to establish a Government-sponsored, private corporation which will be financed by private capital and which will serve as a secondary market and warehousing facility for insured student loans, insured by the Commissioner (of Education)*** or by a State or nonprofit private institution or organization with which the Commissioner has an agreement*** and which will provide liquidity for student loan investments." 20 U.S.C. Sec. 1087-2(a)

Shareholder owned and controlled, SLMA was established to support the Federal government's Guaranteed Student Loan Program (GSLP) created by the Higher Education Act of 1965. The GSLP is a program of Federal insurance or reinsurance for loans obtained by students from state or private sources. Under this program, students obtain credit primarily from private lenders with the government providing insurance against defaults as well as interest subsidies to the borrower, and an additional amount known as a "special allowance" to assure an adequate rate of return to the lender. In FY 1980, the Federal government estimates that $2.5 billion of loans will be made to eligible students through this program. In addition, lenders continue to hold in excess of $7 billion of outstanding GSLP loans.

In 1976, the Health Professions Education Act established a program of Federally insured loans to graduate health professions students, the Health Education Assistance Loan Program ("HEAL"). The first HEAL loans were made in 1978. SLMA is authorized to provide a secondary market for loans made under this program.

Congress created Sallie Mae in a manner similar to many other quasi-government corporations. The purpose of creating a secondary market was to enhance the attractiveness of student loans to banks and other primary lenders, thereby generating more funds for the student loan market. SLMA was intended to provide lenders with a source of liquidity -- a national, accessible secondary market where lenders could sell their student loans or borrow (warehouse) on the collateral of those loans. Program users were expected to provide the equity

capital. Additional capital was to be obtained through the sale of government guaranteed debt obligations. The corporation was to use these funds to purchase or warehouse student loans. In this way, SLMA would support the Congress' objective of maximizing private capital participation in student loan financing consistent with the assurance of equitable levels of loan access by borrowers.

SLMA's status as a Government-sponsored, private-sector oriented corporation reflects two fundamental and complementary realizations by the Congress: first, that the public interest requires a viable system of student credit whose major delivery vehicle, the GSLP, would operate more effectively with the support of a national secondary market; second, that a secondary market motivated by private sector objectives represented the least expensive means of providing this support.

SLMA's corporate organization represents a careful and deliberately framed statutory structure sensitive to the intertwined goals to be achieved by the corporation. While SLMA has never requested nor received any appropriated funds from the Federal government, Congress did enable the corporation to borrow with the full faith and credit of the United States supporting its debt through 1982. As with other Government-sponsored corporations which have gone through a similar process, SLMA anticipates a timely legislative review of this Federal guarantee and a subsequent decision by Congress as to how the public interest could best be served.

Utilizing this full faith and credit, SLMA obtains borrowed funds in support of its program operations. Guided by private sector motives, SLMA measures the success of its programs by the level of services provided and efficiencies achieved as well as their effect on helping to maintain continued private sector confidence in the GSLP.

By statute, SLMA's common stock can only be owned by eligible financial and educational institutions, and the majority of its directors are elected by these shareholders. The President of the United States appoints one-third of SLMA's twenty-one member Board of Directors and designates SLMA's Chairman from among the membership of the full Board. SLMA's enabling legislation also provides for involvement of the Department of Health, Education, and Welfare and the Department of Treasury in the corporation's financing activities. In addition, the Treasury Department is required by statute to provide the President of the United States and the Congress with a report on SLMA's operations. SLMA also is required to transmit to the President and Congress an annual report of its activities and operations.

SLMA's enabling legislation requires the corporation to balance its public and private interests to assure corporate financial objectives as well as program objectives in support of the GSLP. SLMA, as a privately owned, profit making corporation, is not expected to assume risks which would have a materially adverse effect on the corporation's continued financial stability and ability to operate as a viable secondary market. SLMA also is a public purpose institution sponsored by the government to support vital national goals in the area of student credit. As such, SLMA is expected to play a leadership role, within the bounds of sound financial practice, in encouraging and supporting lenders in the continuation and expansion of sound GLSP lending activity.

A major goal in the area of student credit in recent years has been to encourage broad availability of student loans through the private sector. The Educationa Amendments of 1976 encouraged the continued development and expansion of state level administration of the GSLP in the belief that states are in a better position to control program costs and provide services to lenders. This legislation also continued the role of SLMA as a secondary market designed to support the national policy of encouraging lenders to participate in the GSLP by reducing the risks of financial illiquidity through the operation of an active and responsive secondary market.

The expansion of lending under the GSLP requires leadership from government and the private financial community. SLMA, which spans both the governmental and private lending worlds, provides part of this leadership directly through its program activities and, indirectly, by setting standards which are widely acknowledged as supporting sound loan origination and administrative policies. Concern has been raised that SLMA has not played its role effectively, that its policies and practices are not sufficiently supportive of the lending community, that its standards are restrictive and its market penetration limited.

An examination of SLMA's program activities under its Warehousing Advance and Loan Purchase Programs reveals the extent of SLMA's support of the GSLP and the national objectives set forth by Congress in this area. SLMA is authorized to make advances on the security of and to purchase, sell, and otherwise deal in Federally insured student loans or student loans that are insured by state or private bodies that participate in the GSLP. Under the Warehousing Advance Program, borrowing against the security of student loans is, by law, limited to 80% of the face value of the student loan collateral. Proceeds of such advances must be reinvested by the borrower in additional student loans. Also, SLMA's enabling legislation prohibits it from dealing with any financial or educational institution that engages in certain practices, including requiring a student or his family to maintain a business relationship with that institution. These same provisions apply to SLMA's secondary market activities in support of the HEAL program.

In assessing the success of SLMA, the difficulties in establishing a national market undoubtedly encountered in any undertaking of this nature must be acknowledged. The implementation of a new, commercially viable financial intermediary such as SLMA, where no national secondary market in student loans had heretofore existed, requires a great deal of work with primary lenders and program administrators. Likewise, the GSLP itself has had several problems which have been widely publicized.

The changing statutory and regulatory environment in which the GSLP operates has added several layers of complexity to a program which is already burdened with administrative and regulatory confusion. The GSLP has suffered high defaults and continues to suffer from administrative inefficiencies which, despite adequate financial incentives and the existence of a government guarantee of principal and interest, diminish the enthusiasm of the private lending community for this program.

In the past two years, the provisions of the Education Amendments of 1976 have been in the process of implementation. The most apparent effect of these Amendments is the accelerated establishment of state guarantee agencies as the primary administrative intermediaries for this program. During this time, the Department of Health, Education, and Welfare has also begun to reduce the amounts of loans in default, thereby decreasing related program costs. However, there remain several problems with the GSLP which from time to time diminish program participation and the consequent ability of students to obtain loans. SLMA, as the national secondary market for the GSLP, is committed to providing a level of services to lenders which is intended to encourage lender participation in the GSLP. In this, the corporation recognizes that the assurance to lenders of financial services through the secondary market provides an important foundation in support of the government's objectives of an effective, accessible GSLP.

In more than five years of operation, SLMA has worked with nearly 500 lenders in over 40 states and expects to increase that number by an additional 150 in 1979. These institutions include commercial banks, savings institutions, credit unions, educational institutions, state agencies and state secondary markets. Statewide programs are financed with assistance from SLMA for the states of Michigan, Minnesota, Florida, Kentucky, Kansas and the District of Columbia, each of which is counted only as a single lender. It is estimated that SLMA program users represent 50-60% of current total lending under the GSLP.

SLMA routinely and consistently does business with large and small institutions. The corporation does not require a minimum transaction size. Transactions have ranged in size from a purchase of a single student loan note for $600 to an approximately $50 million purchase from the state of Florida. The median transaction size is about $300,000.

Since inception Sallie Mae has provided nearly $1.6 billion of support to lenders under the Guaranteed Student Loan Program through its Warehousing, Purchase and Commitment programs. As of May 31, 1979, SLMA's current investment of nearly $1.1 billion in the GSLP (Exhibit 1) was equal to approximately 15% of all student loans outstanding (Exhibit 7). As a comparison, Federal Reserve Board and Federal Home Loan Bank Board data show that in the secondary market for home mortgages, the portfolios of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association combined are approximately 7% of outstanding mortgages. In discussions with other secondary market makers, the number of institutions with whom SLMA deals is comparable with their experiences.

The attached Exhibits 2 through 6 detail volume under SLMA's Loan Purchase and Warehousing Advance Programs through May 31, 1979.

In terms of its business practices, SLMA differentiates between high risk lenders and high risk student loans. SLMA does not purchase loans unless they have been originated and maintained in compliance with appropriate statutory and regulatory requirements. The corporation works with those institutions that are not in compliance to improve their understanding of these program requirements and has then been generally able to complete a transaction.

SLMA believes that it is has the responsibility to purchase portfolios of loans from lenders whose origination practices are satisfactory, even though these institutions have shown relatively high incidences of default. As such, SLMA's portfolio contains an above-average number of loans made by open access lending institutions who provide credit to disadvantaged and minority borrowers. In some instances, the default rates of these institutions have been above 30%. Many institutions have indicated that they would not support the GSLP without SLMA standing by as a secondary market outlet for the loans they originate.

SLMA's support of student credit needs is limited by statute to providing secondary market support of the GSLP and the recently implemented HEAL program. Not all primary lenders are willing or need to utilize the secondary market. For many financial institutions, the yields on these loans as well as other institutional factors encourage retention of student loans. However, the knowledge of the existence of an accessible secondary market provides confidence to these lenders should they wish to utilize SLMA.

SLMA recognizes that as a secondary market, it has an important role in encouraging the primary market to lend to students in a nondiscriminatory and equitable manner. This understanding pervades SLMA programs which reflect statutory requirements designed to encourage institutions to deal fairly with student borrowers, and in the terms of the programs themselves, which attempt to balance the interests of lenders and the needs of SLMA in a reasonable fashion, given GSLP program complexities. SLMA also is deeply involved in assisting several states in their efforts to encourage student lending activities through the development of direct lending capacity or in the establishment of effective state student loan guarantee programs. In addition, SLMA actively promotes the use of its secondary market services to the financial community in the belief that the assurance of its support and participation will encourage the flow of private capital into the GSLP.

SLMA is, under its Charter, a private corporation, governed by a Board of Directors elected in part by shareholders and appointed in part by the President. SLMA's primary public goal is the provision of liquidity to the student loan market and the encouragement of sound student credit policies. The corporation's position as a Government-sponsored enterprise implies a responsibility to encourage public interest objectives consistent with sound financial practices expected of a private business. The pursuit of these goals, under its Charter, is fully consistent with the intent of Congress and reflects a balanced approach on the part of SLMA with regard to meeting its public and private goals in support of the GSLP.

EXHIBIT 1

OUTSTANDING PROGRAM ASSETS
1973 - 1979

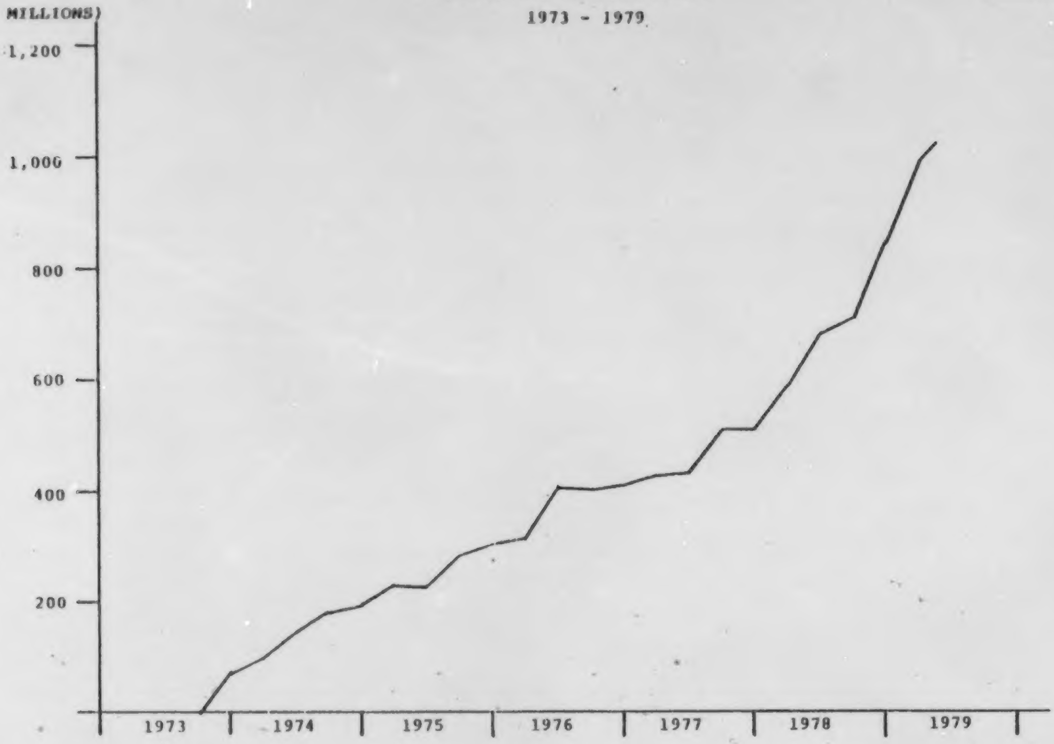

EXHIBIT 2

OUTSTANDING LOANS PURCHASED

1973 - 1979

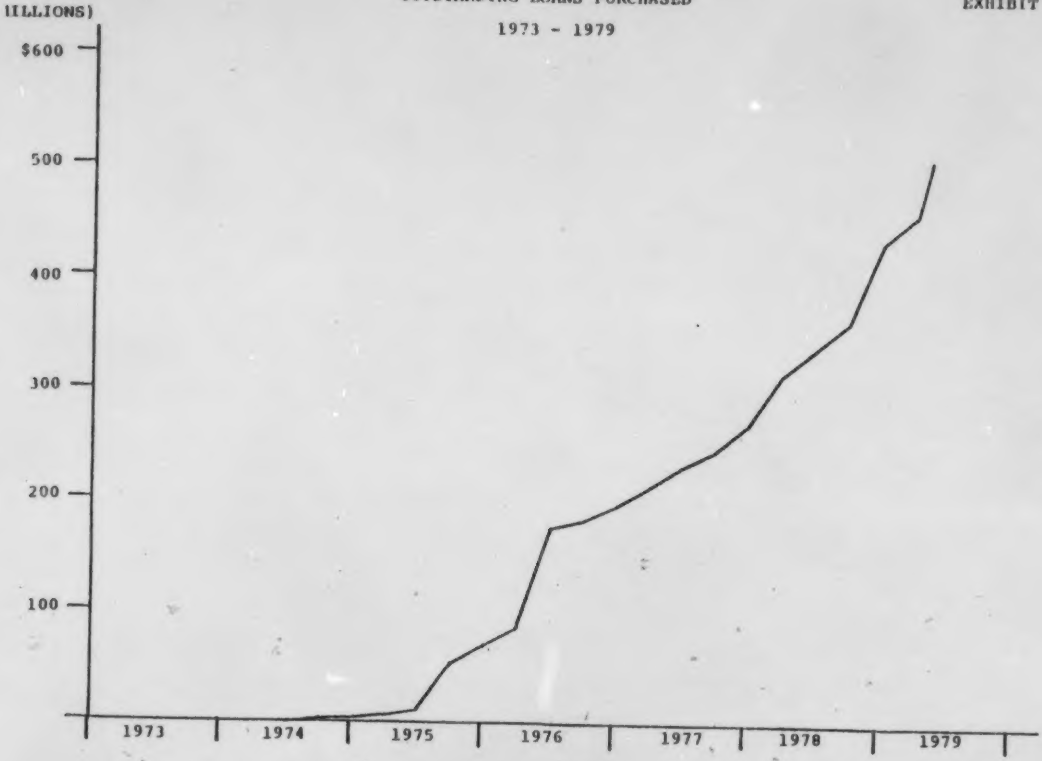

EXHIBIT 3

LOAN PURCHASES
1974-1979

	1974	1975	1976	1977	1978	1979*
NO. OF TRANSACTIONS	3	32	63	84	210	182
DOLLAR AMOUNT (MILLIONS)	$4.4	$67.6	$132.6	$92.4	$209.7	$95.4
NO. OF STUDENT LOANS	3,195	45,277	84,917	65,370	127,657	53,700

*Estimated as of 5-31-79

EXHIBIT 4

CUMULATIVE LOAN PURCHASES
1974-1978

PORTFOLIO SIZE	TRANSACTIONS NO.	TRANSACTIONS PERCENT	DOLLAR VOLUME AMT (MM)	DOLLAR VOLUME PERCENT
- $ 99,999	69	17.6%	$ 3.0	.6%
$ 100,000 - 199,999	61	15.6	8.8	1.7
200,000 - 499,999	106	27.0	34.0	6.7
500,000 - 999,999	59	15.1	41.9	8.3
1,000,000 - 1,999,999	44	11.2	64.4	12.7
2,000,000 - 4,999,999	37	9.4	101.4	20.0
5,000,000 - 9,999,999	10	2.6	75.5	14.9
10,000,000 - over	6	1.5	177.7	35.1
Totals	392	100.0%	$506.7	100.0%

Average Portfolio Size: $1.3 Million

Median Portfolio Size: $365 Thousand

EXHIBIT 5

OUTSTANDING WAREHOUSING ADVANCES

1973 - 1979

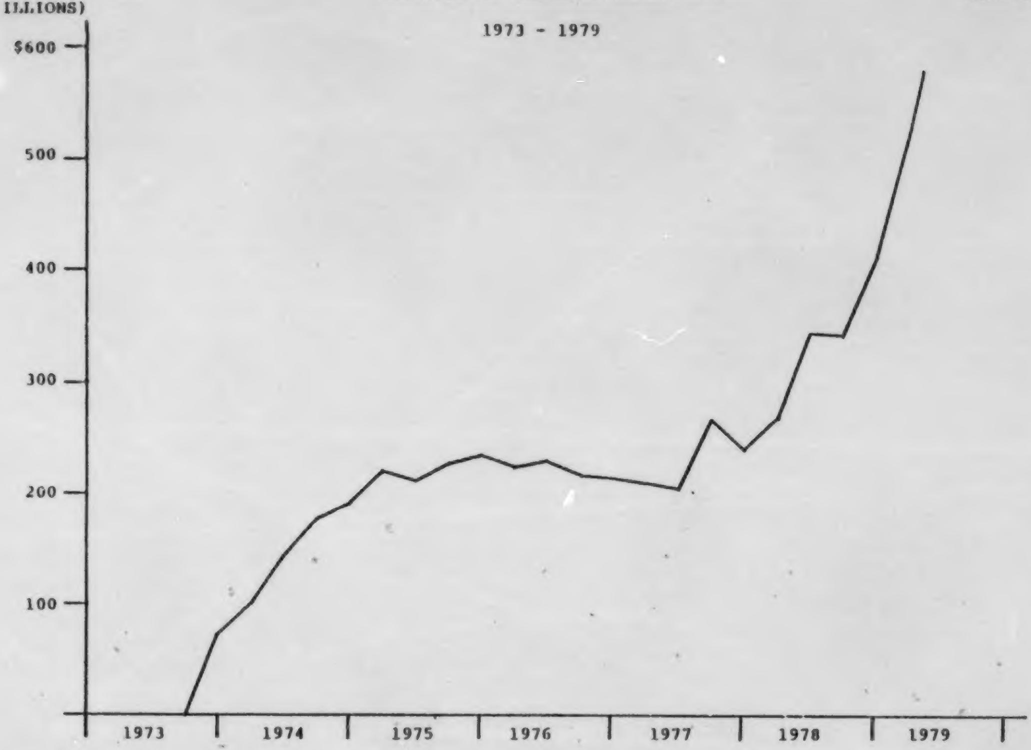

EXHIBIT 6

WAREHOUSING ADVANCE PROGRAM
THROUGH 5-31-79

Total Volume:	1973	$ 76,940,000
	1974	158,393,000
	1975	144,178,000
	1976	86,106,000
	1977	150,235,000
	1978	237,985,000
	1979*	185,450,000
	Total	$1,039,287,000

Total Transactions:	290
Total Estimated Student Borrowers:	494,900

*Estimated as of 5-31-79

EXHIBIT 7

SLMA PROGRAM GROWTH
VS GSLP GROWTH
(AMOUNTS IN MILLIONS)
1973-1979

	SLMA	GSLP(est)	SLMA/ GSLP
October 1973	$ 0	$4,300	
Gross Additions	1,577	7,641	21%
Repayments, Claims	497	4,917	
Net Change	1,080	2,724	40
May 31, 1979 (est)	$1,080	$7,024	15%

CHANCELLOR E. T. DUNLAP, CHAIRMAN OF THE BOARD, STUDENT LOAN MARKETING ASSOCIATION, WASHINGTON, D.C.; AND EDWARD A. FOX, PRESIDENT AND CHIEF EXECUTIVE OFFICER STUDENT LOAN MARKETING ASSOCIATION

STATEMENT OF CHANCELLOR E. T. DUNLAP, CHAIRMAN OF THE BOARD, STUDENT LOAN MARKETING ASSOCIATION, WASHINGTON, D.C.

Mr. DUNLAP. I am chairman of the Student Loan Marketing Association, commonly referred to as Sallie Mae. I was appointed by President Carter on June 29 of last year as one of the seven public members of the Board of Directors, and, in November—on November 16—the President designated me as chairman of the board.

Our purpose for being here today is to brief the committee on the work that is carried on by the Student Loan Marketing Association, in an effort to carry out the assignment given it by Congress in 1972, when the company or corporation was chartered by act of that session.

As you know, the purpose of the Student Loan Marketing Association is to serve as a secondary market for guaranteed student loans and also to advance funds to banks and other private lenders against their student loan notes as collateral to the extent of 80 percent of their loan portfolios. It is my impression that Sallie Mae has, to some reasonable degree of success, been doing the things assigned by Congress in 1972. It took it a couple of years to sell stock and to get organized and operation underway.

As you know, the corporation is controlled by a board of directors, seven of whom are appointed by the President, seven are elected by the educational institution stockholders, and seven are elected by the banking community shareholders.

With me here, Mr. Chairman, is the President and Chief Executive Officer of the corporation, Mr. Edward Fox, who has been in that position since its beginning of operation some 5 or 6 years ago. At this time, I think I will defer to Mr. Edward Fox, who will make a statement, and then we together will be glad to respond to questions.

STATEMENT OF EDWARD A. FOX, PRESIDENT AND CHIEF EXECUTIVE OFFICER, STUDENT LOAN MARKETING ASSOCIATION

Mr. FOX. Thank you, Chancellor Dunlap.

Sallie Mae was created by an Act of Congress 6 or 7 years ago and given a very specific but narrow mandate. I believe that we have done that job equitably over the 6 years of operation in which Sallie Mae has been providing support to the guaranteed student loan program during the last year to the health education assistance loan program.

When Congress created us, they did it in a way that was similar to many corporations created before us. They looked to the constituency we served to buy the stock to create the capital base for the corporation. They gave us certain authorities. They gave us a mission. They asked us to be a for-profit, free-enterprise type of institution because that would be the most efficient way to satisfy the goals of a secondary market. The programs in which we operate are really narrow in context of the programs that you are looking at. We deal only in GSLP loans. The HEAL program is relatively new; it hasn't gotten far off the ground, but we will ultimately deal in those loans as well.

Sallie Mae can only act as a secondary market institution in loans originated by others under the guaranteed student loan program. These loans are created by banks, savings institutions, co-ops, credit unions, educational institutions, and States. The primary lenders under this program, enfranchised by States or Federal Government, are other institutions. Sallie Mae can only become a part of this program after other institutions have initiated the process by extending credit to a student. That is what we mean by a primary market, an institution that deals in the first instance with the students. Sallie Mae is a secondary market. That means that we can deal with friendly lending institutions and buy their loans or lend money to them, in some way providing them with liquidity so that they can further participate, and feel comfortable about their participation, in the program.

We do not make loans directly to the student. We are not a part of HEW. We are a private for-profit corporation in the secondary market and what we are trying to accomplish for the banks and other lenders is converting their loans into cash so they can take this cash and reinvest it in additional student loans.

A student loan is a very complex instrument. There are about 40 different State, Federal and private programs, each with their own regulations, forms, and administrative functions, and we at Sallie Mae have to deal with all rules, regulations, and legislative initiatives undertaken by each jurisdiction. That makes for a very complex program.

We bought a portfolio from a major institution containing $15 million worth of loans. That is approximately 10,000 accounts. In each of the loan folders were approximately 30 pieces of paper representing all the required documentation of the program. We had to literally examine and transfer and put up on our system 300,000 pieces of information for that one portfolio. All this is brought about by the complexities of the regulations, and these are not just HEW regulations.

When a bank makes a loan to a student, there is concerned about truth in lending, and adequately disclosing to the student the fairness of the obligation and the rate of interest. We are concerned about the Federal Trade Commission, and their impact on education in this country. We are concerned about the bank regulatory agencies that have impact on all the financial lenders with which we deal. There are many different regulations with which we deal other than the pages of regulations which come out of the Office of Education pertinent to these loans.

We do our business in three basic and simple programs. We have what we call the warehousing program under which we can lend money to people who have participated as primary lenders in the guaranteed student loan program. This is a simple transaction where there are certain requirements. The first is that the educational or financial institution have a portfolio of loans that they can use as collateral when they borrow from us. If they don't have loans, by law we cannot lend money to them. There are other restrictions. One states that if an institution borrows from Sallie Mae, they must reinvest the money into additional student loans. We can lend up to 80 percent of the dollar value of the portfolio created by primary lenders. Borrowers over the years have included educational, financial and other types of institutions in about 40 States. Perhaps more than 1 billion dollars' worth of warehousing loans have been made by Sallie Mae.

This is a very simple program because paper does not move. The loans are kept with the originating institution. They borrow the money from us by signing a note; we assure ourselves over time that they are indeed continuing to reinvest the loans in additional student loans under law. We make certain they are not discriminating in the various ways that are prescribed in our law. But basically, because paper doesn't move, and because the institution that borrows from us retains the responsibility of collecting from the students, it is a simple transaction.

We have made this money available in a variety of ways for many years. It was the first program we were able to put in place. It has been utilized by many institutions, particularly during periods of high interest rates. It proves very attractive to institutions to borrow from us because in that environment because we frequently have a lower cost source of funds than are available from other sources.

As I mentioned, we have made approximately 1 billion dollars' worth of such accommodations over the 6 years we have been in business in the warehousing program.

The second major program that Sallie Mae offers is a purchase program. As its name implies, we can go to an institution that has created a portfolio of student loans, and we can buy that portfolio, transferring ownership and the collection responsibilities. It is when we buy loans from another institution that we first have the responsibility of dealing directly with the student, because we assume the responsibility of collecting those loans. In order to do that, we have created servicing standards and have made arrangements with a number of agents around the country. When we buy loans we place these loans with a servicer with whom we have a relationship such as a major bank or a State agency, and they undertake the collection responsibility on our behalf.

Now, this becomes a very complex transaction because we want to make certain that all the regulations and all the law has been understood by the originator, that they have honored the diligence requirements of the law and that when we purchase the loans all the documentation is there. The lawyers insist that the documentation be adequate and the accountants insist that audit trails and accounting controls are in place. It is a very difficult transaction, particularly when people are not as conversant with the regulations as perhaps they might be, and it is a learning process for the people who do business with us. They get a better appreciation of appropriate diligence and the standards under which lending should be accomplished. We have found once a relationship is established with an institution, and they have gone through the trauma of the first experience with us, and they get their systems in place and perhaps more responsible to the regulatory process,

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that we get a repeat customer, somebody who comes back to us again and again and obtains the liquidity they need, the ability to convert loans into cash by dealing with Sallie Mae.

We have a very narrow program. We are only able to lend people money or buy loans from institutions who are participating in the GSLP program. It is not as if we are a financial panacea, or that we can induce people into the program by ourselves. We are just one piece created by Congress trying to encourage participation by lending and educational institutions in support of one program. I think we have done a reasonably good job at that.

In order to put Sallie Mae in place there was needed a very significant commitment to systems and control because, we expected to be dealing with millions of little pieces of paper. We had to put a servicing system into place, and this was complex. We are a creature of statute, and there is no way we could offer or participate in any way less than either the statute or the regulations required. There are no shortcuts, and we could not tolerate or accept shortcuts.

As I mentioned, we are responsible to regulators other than just HEW. Just the other day, the Federal Reserve promulgated a reg that would require institutions that do business with us to keep reserves on Sallie Mae advances. It was not understood when they put out that particular reg for hearing that that would occur, but it is one example where the cost of doing business with us would have been increased by a regulation that came from an agency other than Office of Education.

I think it is interesting to note that we have done all of this with no Federal money. There have been questions raised in this hearing room over the past few months as to where we get our money. We have never received a Federal appropriation, although the law originally would have allowed us to have one. Our capital comes from the sale of securities. We have sold common stock, as the law requires, and regulations require, to the program users. We raised about $25 million through an equity sale to approximately 500 or 600 financial institutions and educational institutions. We have had retained earnings, so the capital accounts today are $40 million.

In 1973 and 1974, we sold Sallie Mae bonds directly to the general public, but in 1974, with the creation of the Federal Financing Bank, by Act of Congress, the Treasury Department directed the sale of our debt securities to that entity. The Treasury was attempting to gain control over the offerings of many smaller institutions whose issues in the marketplace may have been disruptive to the Treasury's own ability to go into the marketplace.

So the Federal Financing Bank was an entity created by the Congress to enhance the money raising of a number of institutions, including the Treasury Department. We had proven before that with the sale of hundreds of millions of dollars worth of securities that we had access and acceptance in the private security markets in this country.

We are a taxpayer. We paid $13 million in Federal income taxes in the last 5 years. We have not taken any appropriations at any time. The dollars that we have that support our programs are not

Federal dollars. We do not have access to the Federal Treasury, but we have been a taxpayer, and we pay 48 percent Federal income tax as any other corporation. It has been suggested our program adds cost to the operation of the GSLP. I find no evidence of that anywhere. We don't have any appropriated funds; we buy almost all of our loans at par. I don't know where any cost to the Federal Government may come from pertinent to our operation.

It is true that we sell our debt with the full faith and credit of the United States and will do so through 1982; there is implied subsidy. We couldn't have gotten off the ground without it in the beginning. Other corporations such as ours have had that subsidy and have been weaned and gone out and sold securities publicly as we proved we could do.

By any of the available measures I think the corporation has been successful. It has been suggested that we have very limited market penetration, that we deal with very small numbers of institutions. We are actually rapidly approaching 500 institutions around the country with whom we have done business. That number has some relevance. We have gone about to find out what the participation with other secondary markets has been. There are about $50 billion worth of secondary markets in housing. Yet we found out that only 300 commercial banks have actually participated in the Federal Home Loan Mortgage Corporation or Fannie Mae programs. So I think that as we approach 500, our number is not a bad number.

There are so many, many small institutions who are fearful of participating in secondary markets because of the attitude ingrained in them by the regulatory authorities. There are so many institutions who are satisfied with the yields on the program and don't look to a secondary market. There are many others that are fearful of anything that smells of Washington, quite frankly—that they are concerned that they might be dominated or controlled or somehow dependent on a Washington entity. But we have dealt with nearly 500 institutions. It is our reckoning that those institutions provide somewhere near 50 to 60 percent of credit currently outstanding in this program or being generated each year in the program.

The program is very centralized. It has been estimated by the Office of Education that perhaps 200 major lenders provide as much as three-quarters of the lending in this program. You have large State agencies that provide lending, major statewide banks that are very strong participants in the program. You have one bank that has a $200 million portfolio that provides most of the service in the State.

Among our 500 institutions are about 5 or 6 of these whole State institutions that we finance. The States of Florida, Michigan, Minnesota, the District of Columbia, as you know, and Kansas, we recently financed.

Through awareness of our programs, we give confidence to lenders who know where there is a source of funds, and that confidence encourages them to go out and make loans and participate in the program, and even though we don't finance them, we know from their comments and from their increased participation in the program that the presence of Sallie Mae is sufficient to induce them to stay in the program. They have seen us perform, go out and buy the money and lend it at attractive rates, so lenders can feel confident in supporting the program.

We have worked with institutions to try to encourage their participation. We have been working closely in the State of California with the creation of a new State agency. Lending there has been substantially diminished in recent years, but we have provided assistance to the new emerging California State agency. We have worked with banks. We are buying all of the old loans from those institutions that are willing to sell under the Federal program so they will only need one system for collection, once they start their new State program. We have offered very substantial commitments to induce the major banks in the State to get into the program, and I am pleased to say that in the State of California, where lending has diminished substantially in the last few years, I wouldn't be surprised if lending tripled in this year because of the confidence the bank have in the new State program in California, and the ability of Sallie Mae, through its commitments for hundreds of millions of dollars, to support their lending. If they desire to keep the loans they make, they can do so, but if they are looking for a source of funding to buy the loans, we have committed ourselves to that State, to those institutions, and that State will turn around, and I think make a valuable contribution to the program in this year.

We also deal in commitments with States and other financial and educational institutions. The commitment is nothing more than a warehouse or purchase program assured in the future. We promise to do something in the future, and this induces people to participate currently in the program. We might promise a State that if they sell a bond issue, we will stand behind them to pay off that indenture through the purchase of their portfolio if that is necessary a couple of years down the road. We will go to educational institutions and promise them that we will buy a loan or lend them money 5 years from now, which induces them to offer aid to incoming students for the term of 4 years that a student is going to be in the institution.

Finally, we make commitments to commercial banks, to further induce them to lend it in their area. We stipulate the price and the terms under which we will do business, and this encourages institutions to participate as lenders.

There are two other ways in which I think we could measure the performance of Sallie Mae. It was mentioned in this room a few months ago or questioned in this room as to how we would compare against the housing secondary markets. The housing secondary markets are Ginny Mae, Fannie Mae, and the Federal Home Loan Mortgage Corporation. They have been in business for many years, and I don't think it is a fair comparison to look at their market penetration and ours and conclude that one is better than the other. Today, by Federal Reserve documentation, they own about 7 percent of all the mortgages outstanding. We own or provide credit equal to 14 or 15 percent of all the student loans outstanding. We have put approximately $1.6 billion in this program in our 6 years. We have done this to large and small institutions without regard to size, without regard to quality judgements concerning the student.

We look to the quality of the lending institution to make sure they are lending in compliance with the program and doing it diligently and fairly. We have undertaken to provide this $1.6 billion even dealing with some high risk portfolios, where the prospective default rates have been considerably above average. We have done this with purchases, as small as the purchase of a single $600 note to as high as a $50 million purchase from the State of Florida.

I should point out we deal with credit unions, and they are a rapidly emerging factor in this business. We have done a lot of business with them in the last couple months.

We put $1.6 billion into this program. In the 6 years we have been here, we have provided capital equal to 40 percent of the net increase in outstanding programs. In other words, the programs have gone from $4½ billion to a little over $7 billion outstanding. We have provided 40 percent of that money in over 40 States. I think that is a pretty reasonable record of accomplishment.

In finishing up, I would like to repeat something Chancellor Dunlop said. We don't think we have completed the job. We think we can do more. We have been out there hustling, meeting with just about every institution. We have had mass mailings, marketing efforts, particularly in this year, where there has been the risk that interest income will not be sufficient to meet the cost. The Board has gone on the line, and we have been quoted in a number of newspapers. We have been willing to support the program, even though we know there is a chance we are going to be losing money this year.

We know in the next 6 months our income is going to be severely limited by the constraints on income in this program, but the Board went on record late last year, when it realized this was going to happen, encouraging institutions to continue to participate in the program, encouraging them to look to us for financing, to get them through this period, and we do this because we feel that we have a service we have to provide, a social service.

We operate as a private for-profit corporation within the free enterprise system as we understand it. We are a business, but we don't lose sight of the fact we have a social purpose, and I think we have satisfied that. We have a limited role, and I would welcome any questions you might have about the role we play, how we do it, and how we might further help in your deliberations on all of these title IV matters.

Thank you, Mr. Chairman.

Mr. FORD. Thank you.

When are you scheduled to sever your relationship in effect with the Government and be a free standing organization?

Mr. FOX. I don't think we will ever be free standing. The Federal National Mortgage Association gave up its full faith and credit in 1969, I believe, but at that time, because there was a social purpose implicit in the corporation, the four Board members appointed by the President were still to be appointed by the President.

We as a corporation are subject to audit by the Treasury Department, and have certain reporting responsibilities to the Congress

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and to the President. I think the only thing that we are going to give up in 1982, and this will be something that you would consider, is whether we would be financing with the full faith and credit of the United States behind our debt.

After 1982 it may not be necessary. Perhaps we can function as an efficient corporation without that. But I can't believe that we would be completely let free from Federal oversight.

Mr. FORD. What has been the capital investment requirement for participation by lending institutions?

Mr. FOX. Conceptually, following the precedent established by about 50 corporations created by this Congress before us, we went out and we sought capital specifically from those who participated in our programs.

Originally, about 55 percent of the eligible participants in the program by law could become stockholders of our corporation. By State law about 45 percent of the eligible lenders were not permitted to buy our stock.

We said up front that we would require participants in our program to purchase 100 shares of stock in SLMA, which was $15,000, in order to be entitled to be a participant in the program. This was entirely consistent with other federally chartered corporations such as the Federal Home Loan Banks or the Farm Credit Corporations. All went to their constituents looking for the capital to get their organization off the ground which was going to be providing them with service.

As our capital was raised and as we started coming onstream, we started reducing the requirements. Last year we reduced the requirement so that only institutions with assets of more than $25 million had to be stockholders. That reduced it to about 15 percent of the institutions we might do business with that were required to buy stock.

Earlier this year we reduced that again even further by requiring that only institutions with assets of $50 million or more would have to be stockholders in order to do business with us.

We now have something in excess of 90 percent of the financial institutions in this country who are not required to be stockholders of our corporation and I think a far greater percentage than that among educational institutions who are exempted from stock ownership.

Mr. FORD. Did I understand you to say you have approximately 500 participating institutions and 500 lender shareholders?

Mr. FOX. Over the years, people who have been desirous of participating in our programs have bought stock in the secondary market. There is a secondary market being traded by security dealers. Today we have somewhere around 750 institutions who are shareholders.

Mr. FORD. More shareholders than participants?

Mr. FOX. Yes, sir.

Mr. FORD. The bankers the other day said there were 42,000 lending institutions in the country, by their calculations, 8,200 of whom are making guaranteed student loans but only 500 of those making guaranteed student loans are participating in Sallie Mae.

Mr. FOX. I think the first two of those numbers are somewhat misleading. There are 42,000 financial institutions, if you count a very, very large number of credit institutions that are very, very small. And there are massive regulations that they have to understand, comprehend and satisfy in order to get into some of these programs.

The National Credit Union Administration has only recently been encouraging participation in the guaranteed student loan program or other kinds of installment debt. As a matter of fact, Sallie Mae wasn't permitted by regulation to deal with credit unions until late last year.

As to the number of institutions who are participating in the program, I am really not sure. Out of 42,000 there is no data bank that tells you who the 8,500 are. We have heard different numbers from different people who speculate as to the numbers. It's as good a number as we are going to find but that number has jumped around quite a bit in recent years.

They used to say 19,000 a couple of years ago. I don't know how accurate that number really is. I can tell you the 500 number in Sallie Mae is accurate. It's not for lack of trying we haven't a large number. We have gone around this country; we have communicated with perhaps 18,000 or 20,000 financial and educational institutions to try to encourage them to participate in the program and use our services.

Secondary markets have not attracted that much participation among the very small commercial banks. Many of those 42,000 institutions, about two-thirds, have less than $10 million in assets and a very significant portion have less than $2 million in assets. The people with whom we do business account for perhaps 50 or 60 percent of the program.

In addition, there are some other very large other secondary markets. A number of States have secondary markets that offer services similar to ours. Many States sell revenue bonds and that is a very low cost source of funds so their lenders don't need our service.

There are significant other reasons that limit the people with whom we can do business, Mr. Chairman. For example, our statute says we cannot do business with commercial banks over $50 million in size if they require a prior business relationship. We feel 80 percent of the commerical banks above $50 million in size as a requirement require a prior business relationship before making a student loan.

We haven't been able to do business in a number of States. There are many, many limitations. Many institutions don't want to do business with Sallie Mae because by law in one of our programs we require the borrower to reinvest the funds in additional student loans. This has proven to be discomforting to some lenders. I think the 500 lenders, by the way, will be close to 700 by the end of this year because of the current financial and economic environment. That is a pretty good size number.

Mr. Ford. You mentioned that one of the things that you do with warehoused loans returned to the market is to monitor the loan to assure that the lending institution is not discriminating in loans. What do you mean by that?

Mr. Fox. We get compliance statements from officers of the institutions and the officer does sign that they are investing the borrowings from us in additional student loans in compliance with the law. They make the representation they are not discriminating on the basis of race, sex, creed, or color. We send auditors and certain of our staff people to follow up.

Mr. **Ford**. When you talk about the only thing they have to show is that they don't discriminate by race, sex, creed, or color, you are not concerned with any other kind of discrimination?

Mr. **Fox**. We are concerned in commercial banks above $50 million in size that they do not require prior business relationships. We are concerned that they continue to participate in the program. By the way, the evidence is that the people who do do business with us, whether it be purchase programs, or warehousing, substantially increase their participation in these programs. It is our statute that spells out that which is required to be controlled and monitored by us.

Mr. **Ford**. There were two kinds of discrimination, two forms of discrimination described here recently, one the other day, by the California banker who said that his bank has decided that first year students didn't need guaranteed loans, and in the middle of the $63 million program they quit giving money to first year students.

This morning you heard the young lady describe her experience where a precondition of consideration of her loan was deposit of $300 in some sort of account. Those are forms of discrimination, one based on some banker's idea about when people need money and don't need money for school, and the other based on some banker's idea that, if you are to benefit from the loan, he ought to get your hooks into people in some fashion so they become customers.

You don't have any responsibilities with respect to that kind of——

Mr. **Fox**. We do to the latter. I think it's repugnant to me, personally, that bankers are making educational policy. We deal with institutions as long as they are in compliance with the law and the regulations.

For example, in dealing with California, we have made an attempt in our dealings with those institutions that we have been providing with commitments to try to encourage the availability of credit to first year students, to try to get them to at least consider the maximum loans to those students who have that need, to try to get them to look at all institutions rather than some narrow set of institutions to which they make credit available.

We have had some luck with that. Certain of the banks have given evidence that they are going to be making loans to first year students, perhaps not as broadly as you might like, but it's a step in the right direction. I do believe that we have been trying to encourage them to be fully supportive of the Federal statute.

As to the latter form of discrimination, our law says that if a $50 million asset commercial bank requires a banking relationship as a prior condition of giving a loan, than they cannot do business with Sallie Mae. We monitor that very carefully. We monitor that through the student financial aid community in the State in which that institution is located.

We hear these things. We monitor it by going out through our auditors and actually looking at portfolios of loans that are being originated, and you hear pretty quickly about that. There are a number of States where this has been the banking practice. Some of the most important things Sallie Mae has done are right here in Maryland where a group of banks agreed to remove that prior business relationship restriction as long as they had financing assurance from Sallie Mae and as long as the major banks did it at the same time. So no one institution had everybody coming to them.

Mr. Califano referred in his testimony to the increase in lending being done in the State of Maryland. That is the reason for it, because the restrictions have been removed, and it has been an effort on the part of the Maryland Higher Education Authority, the Office of Education, and Sallie Mae, providing credit working with the bankers. We have seen this in a couple of other areas. In Western Pennsylvania, major banks have just borrowed money from us, which they hadn't been able to do for years and years because they required a prior business relationship.

The cost of our money must be attractive enough or their social commitment broadened because they removed their requirement and borrowed large sums from us. These have changed but there are a significant number of institutions that require it.

Mr. FORD. Well, finally, the question that is most frequently asked, at least that I have heard most frequently, you have got $1.6 billion out, only $40 million of which has been raised outside of the Federal Financing Bank.

The administration looks at this as in advocacy of their programs, as evidence of the fact that there isn't any real generation of private capital involved here, that it hasn't proved to be a device by which you generate a lot of private capital into a secondary market for student loans.

What is the trend with respect to that, if we assume that you get up to 750 participating institutions this year and you have to have extra money. How much do you expect is going to come from generating private capital and how much from the Federal Finance Bank?

Mr. FOX. We currently have about $40 million of equity, money that has been either raised from stockholders or retained earnings. I don't think there is any doubt that it is private capital. When we first started out we sold our bonds directly to private investors and we raised hundreds of millions of dollars through that vehicle, and there is no doubt those dollars were also private funds and not Federal funds.

There seems to be some question as to whether the dollars an institution receives get from the Federal Financing Bank are public dollars or not. I don't think this is really the case. The Federal Financing Bank is not the U.S. Treasury; it's not U.S. Treasury dollars, it's an entity, a bank created by the Congress to be administered by the Treasury Department. It, too, has raised funds through the sale of its bonds to the general public in the past.

Currently it's getting its funds from other sources, it is an institution that can get its funds from a variety of places, not necessarily Federal dollars. I don't think it's appropriate to generalize and characterize as Federal dollars all Federal Financing Bank sources of funds. We are using the FFB because the Treasury has indicated that they wanted us to be in there.

We have shown that we can actually raise funds by selling our bonds directly to the public. I think it's a misnomer to suggest that, as others have, 95 or 99 percent of our dollars are only Federal dollars. These dollars can be and have been raised directly from the public, and I don't see any reason to characterize those dollars as Federal dollars. We are not and do not have access to the Federal Treasury.

Mr. FORD. But the incident that you credited with the change, rapid change to use of the Federal Financing Bank, was something required by the Treasury of you in 1979?

Mr. FOX. In 1974.

Mr. FORD. In 1974?

Mr. FOX. Yes, sir. We had raised $400 million as an untried new entity in the debt markets, selling our bonds to the public before the Federal Financing Bank came into existence. I believe in the Federal Financing Bank because I think it performs a very valuable service. It just takes the small indebtedness of a number of Federal and quasi-Federal entities, pools it and enables that entity to sell its debt once into the marketplace rather than having 20 or 30 or 40 little issues being sold, which frequently had been disruptive of the Federal Government's own finance plans.

This was created by Congress as a convenience to the Federal Government to enhance its ability to raise debt. To the extent that we had proven prior to the creation of the FFB, our ability to raise funds in the public markets, before we even had a track record as an institution, I believe that should assures that we would have that access today.

The Treasury has indicated to us that use of the FFB by Sallie Mae was their preference and they would force the issue if we didn't use them. I do believe we could utilize the private debt market and have shown that historically in the past.

Mr. FORD. Thank you.

Mr. Buchanan?

Mr. BUCHANAN. Thank you, Mr. Chairman.

That is a very important distinction because a rather major point is that you got 98 percent of your money publicly, rather than from private sources. Are you saying that if at this minute, there were no Treasury policy, you feel you could go out into private markets and obtain the capital you need in your operation?

Mr. FOX. We have already done so, Mr. Buchanan. We actually started as a new venture raising $400 million in that way.

Mr. BUCHANAN. Do you think you could do it today?

Mr. FOX. Absolutely. As a matter of fact, we think that by 1982 we might even be able to raise funds without the full faith and credit of the U.S. We think we can be an efficient public debt marketing corporation, with the full faith and credit today.

We are developing a track record; we are developing a balance sheet and earnings record so that after 1982 we think that the general public could be induced to purchase our bonds without the Government guaranty.

Mr. **Buchanan**. How do your profits compare with other major corporations?

Mr. **Fox**. If you were to look at nonbank financial corporations in this country, a recent conference board bulletin indicated that those institutions earned on the average about 18 percent on capital this last year. If you look at commercial banks, which we are not, that same report indicated that they earned about 14 percent last year. We have earned about 8 percent compounded on capital since inception.

In the past year we earned about 17 percent. We have paid less than 1 percent dividends out of 8 percent of compounded earnings. Earnings were slightly less than $6 million last year and went primarily into retained earnings. They have gone into retained earnings. They have gone into our programs and have helped us to go out and buy additional student loans.

When we earn money we do so with three major risks. The first is the interest rate risk. Interest rates can go up and down. We can get hosed if interest rates get out of hand. Even though we are earning money now there is no assurance sometime in the future that interest rate risk won't hurt. We have the regulatory risk and that is that somebody will change a rule somewhere that increases our cost.

We make very, very little money on any individual transaction and so we have the risk. If we are required to mail two letters out a month instead of one and postage goes to 20 cents from 15 cents per letter, we see our profit margin eroded, something we characterized as regulatory risk.

Finally, we have collection cost risks. We only have short-term servicing contracts. Efforts to collect on student loans are very labor oriented and inflation sensitive. You have people getting on the telephone and calling when you attempt to collect on a student loan. Because of inflation we cannot get long-term servicing contracts. We are making certain long-term assumptions when we actually charge our accounts each year to determine the current year's earnings. To oversimplify, while we may be making money now, we live in a very high risk environment and may not in the future.

We are trying to build our capital accounts as quickly as we can, but by generally buying loans at par, not by discounts or hurting anybody, so that we would be able to stand any future periods of weakness.

We are apt to lose $8 or $10 million of income in the next 6 months because of increased interest rates, and by a cap on student loan income. We knew that when we set our goals for 1979. We recognized in a board meetings 3 years ago that the cap might impact and hurt us. We are apt to lose up to $8 million in the next 6 months and so our earnings are not inviable. The Sallie Mae compounded net yied of 8 percent per annum is not particularly high.

As a matter of fact, you could have bought the safest security going, U.S. Treasury bonds, 6 years ago and earned 9 percent during this period. There is a hell of a lot of risk implicit in the student loan portfolio.

Mr. **Buchanan**. Are you saying the fact that you do have the Government guarantee on the loans themselves, notwithstanding all the other risks you have listed, makes your return predictable.

Mr. Fox. Yes, sir, very truly so. We know approximately what purchase yield is going to be because it's indexed, except when the interest cap intrudes. We know what our costs of funds are going to be. They are both indexed. That leaves a small incremental amount of dollars.

What we have to be able to do is pay all the expenses of collection, of origination, of administration, accounting systems, controls, everything like that, out of that small amount. The yield is not as great as the yield would be on say a car loan or something else, and the amount of detail implicit in this is far more complex and if we guess wrong we could be badly hurt.

We could be guessing wrong for such reasons as inflation, regulatory change, or any number of things.

Mr. **Buchanan**. Do you have any projections on the total GSL volume you would expect to hold in 1 year, 2 years, 5 years?

Mr. Fox. I think it's becoming evident that we are cyclical. We came into business during a period of economic decline in 1973-1974, and even though we were new there was a sudden surge of interest in us, then it peaked and flattened out, when alternative yields were more attractive to borrowing institutions.

Eighteen months ago demand for our services accelerated again but if there is moderation in the growth of the economy over the next year I won't be the least surprised to see the demand for our services going down in the cyclical trough period.

It appears that these loans are attractive to certain types of institutions. So I see us being a cyclical kind of business in response to their needs. I would guess that if it took us 5 years to reach $1 bilion in size it might take us 3 additional years to reach $2 billion in size.

We will continue to be growing although with some cyclical kind of——

Mr. **Buchanan**. What changes or what problems or benefits would you see should Sallie Mae become the public nonprofit corporation recommended by Secretary Califano?

Mr. Fox. A number of the proposals are predicated on the efficiency, on low cost of the centralized entities. By the way, I am very pleased that many people who want to make it a centralized thing want us to be it. But most of these presentations suggest that once you have centralization, that you would have some very dramatic economies of scale and reduced costs.

I don't think I can accept that. All programs have a lot of hands touching paper, schools possible being an originator, somebody else being a collector, somebody else being the guarantor, another party performing still another service. If we learned anything we have learned that as these pieces of paper move you have to have controls in place or else you have just blown it, and those controls mean audit controls, legal controls, documention controls, and as I look at the different alternatives that have been suggested, I sense that there has not been thorough consideration of all the costs implicit in such a mammoth undertaking.

I would have to believe that any centralized program would cost about the same to administer as any current program; you are going to have the same function; somebody is going to have to originate; somebody is going to have to collect; somebody is going to have to perform all those different functions, and you require people dealing with the students at origination, people who make contact with the student to get him to pay back.

I can't believe that you are going to suddenly find that some centralized entity is going to be that much more efficient than what you currently have, with many millions, billions of pieces of paper travelling around. There is no reason to believe that you are going to need any less administrative control on the program if you change the source of funds. Just making certain that truth in lending has been satisfied requires a whole series of documents.

Nobody appears to think about these things, audit controls, so that the General Accounting Office is not going to be on your back. That is expensive and is going to take a hell of a lot of time and attention.

I think the answer then is you really want to look at it as Mr. Fitt did, suggesting that you want to break it out in terms of subsidy and in terms of administration. You have to decide whether you want to subsidize the program or not, then you have to decide if there is an administrative vehicle that is more attractive.

I believe that you are going to find your administrative costs no better than they currently are, and if I had to choose I don't think the Office of Education, with the fact it doesn't have a financial administration department, would be the correct place to put such a program.

In this case, I think the banking system is better tuned to financial management because they are professional in this area.

Mr. BUCHANAN. I want you to comment just for the record on two other things.

The first is your appraisal of the Maguire proposal. The second, and maybe you have done this in writing or perhaps I missed it orally, but Secretary Califano used figures of 24, 27 percent profit a bank could make through doing business with you in permitting student loans.

I would appreciate for the record your comments on that.

Mr. FOX. We have spent some time reviewing Mr. Maguire's proposal and I think what I would like to do is limit my comments to that part that deals with Sallie Mae.

Mr. FORD. I think what Congressman Buchanan was asking you was to submit for the record a statement on both of these.

Mr. FOX. Okay.

Mr. FORD. I think specifically with respect to the second one, take the figures that the Administration put in there, we have asked others to do the same, and give us your best estimate of how accurate they are and the assumptions they make.

Mr. FOX. May I make one final point? It's our understanding that the Secretary will be or has already sent up material that is more relevant than a great deal of testimony that was in his March statement, and I think that he also deals with some of the matters that you were alluding to.

Mr. BUCHANAN. Thank you.

[Information requested appears in the Appendix.]

Mr. Dunlap. May I make one closing comment?

Mr. Ford. Yes.

Mr. Dunlap. Of course, the Sallie Mae is a creation of the Congress. As you review its operation and plan for its future I want you to know that we, the Board of Directors, stand already to be cooperative in any way, or the management to provide you any information on any part of the loan program with which we deal or are familiar.

We thank you for this opportunity.

Mr. Ford. Thank you very much.

I had that offer transmitted to me by you before and I appreciate the fact that, after this program has been in existence for as long as it has been, we have finally had some contact about Sallie Mae. I can't guess why. They have not regarded this committee as an important enough committee to communicate with very much in the past, but the fact is some of us have learned only by what we read in the newspapers what you are doing down there. This is a pleasant change.

I want to commend Chancellor Dunlap for his efforts he has made to plug us into what you are doing and what you are planning.

Now we approach a very difficult problem here. We have an additional panel of very important people, and I have, as you have noticed, been getting all sorts of communications here.

The House is on the 5-minute rule. We have actually been proceeding for about the last hour in violation of the House rules, but I have a request to be on the floor involving an amendment that I have a part of, and I am going to have to leave. We cannot continue this afternoon because we expect that the amendment process is going to go on.

We have some Washington-based people here and some who are not Washington-based, and we will leave it to them to work with the staff, to see whether or not they would like to have their statements put in the record with today's hearings or work out a convenient time to return for a subsequent hearing to make their presentations, but I just don't feel we can go on any further today.

With that we will stand in recess.

[Whereupon, at 1:30 p.m., the subcommittee recessed, subject to the call of the Chair.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

THURSDAY, JUNE 7, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2261, Rayburn House Office Building, Hon. William D. Ford (subcommittee chairman) presiding.

Members present: Representatives Ford, Bailey, Miller, Jeffords, Tauke, and Petri.

Staff present: Thomas Wolanin, staff director; Patricia F. Rissler, deputy staff director; William Clohan, minority assistant education counsel; and Jennifer Vance, minority legislative associate.

Mr. **Bailey** (presiding). The Subcommittee on Postsecondary Education will come to order for the purpose of continuing hearings on the Reauthorization of the Higher Education Act and Related Measures.

Our hearing today will continue consideration of the student financial assistance programs authorized by title IV of the Higher Education Act. This morning our focus will be the college work-study program.

The college work-study program was created by the Economic Opportunity Act of 1964 and was transferred to the Higher Education Act of 1965. Under this program, the Federal Government provides support for part-time work for undergraduate and graduate students. Work opportunities are made available to students based on their financial need. The program is administered by postsecondary institutions. The jobs for students are primarily located on college campuses, although students can be employed in other nonprofit or governmental agencies. In most cases, Federal funds pay for 80 percent of a student's work-study wages, with the remaining 20 percent being contributed by the postsecondary institution.

In the just-concluded 1978–79 academic year, $435 million was appropriated for the college work-study program. In the coming 1979–80 academic year, the program will enjoy a major expansion under the Middle Income Student Assistance Act. There will be $550 million available for the program and jobs will be provided for more than 900,000 needy students.

Our witnesses this morning will include representatives of the administration, students, and postsecondary institutions.

Our first witness this morning will be Mike Smith, Assistant Commissioner for Policy Studies, Office of Education, Department of Health, Education, and Welfare.

STATEMENT OF MARSHALL (MIKE) SMITH, ASSISTANT COMMISSIONER FOR POLICY STUDIES, OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. SMITH. Thank you, Mr. Bailey and members; and thank you for your invitation to appear here today.

I have been asked by the chairman to: One, provide background information on the operation and effectiveness of the college work-study program; two, outline some of the major issues involved in reauthorizing this program; and three, suggest options for creative new uses of CWS funds. Today I will review quickly the background information provided in the first part of this written testimony in order to spend the bulk of my time with you on the issues and options. I will step through this testimony very quickly. If you will follow along with the written testimony, I will point out some of the important parts.

As you have indicated, the objective of the CWS program is to promote the part-time employment of students with demonstrated financial need who are attending institutions of postsecondary education. Students enrolled at least half-time as a graduate, undergraduate, or vocational student in an approved postsecondary education institution are eligible for CWS assistance. The program provides grants to institutions for partial reimbursement of wages paid to students working on-campus or off-campus in public or private nonprofit organizations. The Federal Government normally covers 80 percent of wages, with the remaining 20 percent being paid by the institution or an off-campus employer.

The college work-study program has undergone numerous legislative changes during its 15 years of existence; I will highlight only a few of these.

President Johnson proposed the CWS program on May 16, 1964 as part of the message outlining his "War on Poverty." The program was enacted in that year as part of the Economic Opportunity Act. It was intended not only to furnish low-income students with a source of financial aid for college but also to harness some of this student manpower to the needs of poverty-stricken communities. In keeping with these dual purposes, the program was originally located in the Office of Economic Opportunity.

The Higher Education Act of 1965 began to move the program away from its initial poverty orientation by transferring the program to the Office of Education and by broadening eligibility to include all students needing aid (with preference to low-income students), rather than limiting it solely to students from low-income families.

The CWS authorizing statute was not actually incorporated into the Higher Education Act until the Higher Education Amendments of 1968. These amendments also removed the inferred link between CWS and OEO community action programs and made area vocational schools and proprietary institutions eligible for the program.

The Education Amendments of 1972 emphasized the program's transition from a poverty program to a need-based student financial aid program by deleting all references (except in the State allocation formula) to students from low-income families—substituting the term "with great financial need" and giving preference to students "with greatest financial need taking into account grant assistance provided such students from any public or private source." The 1972 amendments also authorized the participation of half-time students.

In 1975, the Emergency Technical Provisions Act—Public Law 94-43—added to the CWS statute a job location and development component designed to encourage institutions to develop more off-campus jobs for students.

Funding has grown from roughly $56 million in 1965 to $550 million in 1979. The number of students participating in CWS has increased from 115,000 in 1965 to an expected 990,000 in 1979.

The next couple of pages talk in some detail about student eligibility and institutional eligibility.

I would like you to turn to page 5, under "Program Scope." There are now 3,230 institutions in the program. Those institutions not involved fall into three categories: First, the statute specifies that CWS participants in proprietary schools may not engage in work for the institution; this may be one of the reasons that many of these institutions do not participate in CWS. Only 352 proprietary institutions participated in the program in academic year 1978-79. Second, small colleges with limited financial resources located in rural areas often find it difficult to generate CWS jobs and to provide the institutional match. Third, public community colleges with very low tuitions and large numbers of older, already employed students often do not need to draw on CWS as a source of financial aid. You can see from the table here how the funds were distributed among types of institutions.

Ninety percent of the funds are distributed by formula among the States, based on three factors. The first is the number of full-time higher education students each area has relative to the total number for the 52 areas; second, the number of high-school graduates each area has relative to the total number for the 52; third, the number of related children under 18 years of age living in families with income of less than $3,000 each area has relative to the number for 52. Ten percent is distributed on a discretionary basis by the Commissioner, with the proviso that these funds must be used first to ensure that all States receive at least the amount they received in fiscal year 1972. Within States, the funds have been distributed traditionally by the panel method. That particular method asks institutions for documentation of their need, then a panel of peers decides upon the amount of funds each institution should get.

In regulations which are expected to be published soon in final form, that allocation procedure will change. The new procedure will insure institutions at least their 1977-78 level of CWS expenditures and will then distribute any new money on the basis of relative need for student aid among all institutions applying for CWS in the State.

Page 9 provides information about institutional requests versus actual availability of CWS funds. Please note that there is an error in the third line of page 9 of the written testimony passed out to you this morning. In fiscal year 1978 institutional requests for Federal CWS funds totaled $511 million—not $684 million as indicated in the written testimony. Please correct this and accept my apology for this error. The appropriation in fiscal year 1978 was $435 million.

In fiscal year 1979 institutional requests for Federal CWS funds totaled approximately $614 million and the appropriation was $550 million.

Please turn now to the next page which provides information on overall program effectiveness. The bottom line in the college work-study program seems to be that the program is effective overall. It also seems to be quite successful in promoting the Federal role of equal access, if you look at the data on page 11. A survey in September 1977 revealed the following facts about CWS participants at all eligible institutions: First, 55 percent were female.

Second, 29.3 percent were from ethnic minorities.

Third, 28.1 percent were dependent undergraduates from families with incomes less than $7,500.

CWS participation for each of these subgroups is greater than the proportion of total postsecondary enrollment represented by that subgroup.

Let us now consider other effects of CWS, especially the impact of CWS and other student work on persistence. A study completed by Astin in 1975 concluded that CWS had beneficial effects on persistence, especially among women and blacks, with the most consistent positive impact on middle-income families. In examining the effect of various packages of financial aid on persistence among low-income students, Astin found the most effective package to be work-study and major loan support, with CWS alone next best. However, this finding is somewhat contradictory to a second finding that CWS combined with either minor grant or minor loan support tended actually to increase the likelihood of students dropping out of college.

When he considered student employment as a whole (including but not limited to CWS), Astin observed that more than two-thirds of all students were employed at some time while in college. On-campus employment was found to have a beneficial effect on persistence, and working anywhere less than 20 hours per week decreased the probability of dropping out by 10 percent for everyone. Off-campus and full-time—over 25 hours—jobs were not as successful. He translated these findings into a policy recommendation for an expanded work-study program that would enable every student who wanted a campus job to have one.

Critics of the Astin study point out the contradictory nature of some of his findings and to the fact that a student's tendency to persist may motivate him to work rather than the other way around. Nonetheless the study is provocative and stands as one of very few that have attempted to consider the difficult question of the effect of student assistance on persistence. If it turns out certain ways of establishing student aid are more effective than other ways in these areas, we should know about it.

If you will, turn to page 14.

A variety of issues and concerns related to the CWS program have been brought to HEW's attention through analysis within the Department, HEW's regional hearings on reauthorization, and the proposals submitted to this subcommittee by interest groups. I would like to catalog a few of these for you this morning.

Legislative cleanup. The terms and definitions used in the CWS statute are not consistent throughout all of the other student aid programs authorized by title IV of the Higher Education Act.

State allocation formula. CWS funds are distributed among States according to a formula based on three equally weighted factors: No. 1, each State's proportionate share of the national full-time enrollment in institutions of postsecondary education.

No. 2, each State's proportionate share of the number of high-school graduates.

No. 3, each State's proportionate share of related children living in families with annual incomes less than $3,000.

These factors are not directly related to the purpose and clientele of the CWS program. For example: First, the enrollment part of the formula does not include students enrolled less than full-time, yet CWS is available to students enrolled half-time or more.

Second, high-school graduates are weighted in the formula as heavily as the number of students actually enrolled in postsecondary education. With the growing number of adult students and returning students, the number of high-school graduates may be a poor predictor of postsecondary enrollment. Also, high-school graduates in a State are a poor predictor of future enrollment in a State; some States "export" many high-school graduates to other States, while other States are large "importers."

Third, including the number of related children under 18 years of age living in families with annual incomes under $3,000, was appropriate at the inception of the program in 1964, when the program was limited to low-income students; but this restriction has long since been lifted to make all students needing aid eligible for the program, with preference being given to the most needy. The $3,000 factor has never been updated for cost-of-living changes, but even if it were updated, it would have little direct substantive relationship to the current program.

Overall, the present State allotment formulas do not correspond directly to the need for funds which may be present in a State. Within schools, the funds are awarded to students on the basis of their financial need. Among schools within a State, the funds are also awarded on the basis of financial need. Yet among States, the formulas are primarily enrollment-based.

Preference to students with greatest financial need. The CWS statute specifies that preference shall be given to students with the greatest financial need. Some interest groups argue that if we wish to have more middle-income students participating in CWS we may want to soften or eliminate this emphasis.

In considering this issue, however, it is important to remember that the effect of the Middle Income Assistance Act may be to build a stronger base of grant support for low-income students, thereby making them less needy and diverting some of the CWS funds to the middle-income. Therefore, there seems to be no need to alter this language.

Constitutional funding arrangements, matching has been a concern raised by a variety of interest groups. The Federal Government presently pays 80 percent of the salary costs of an institution's college work-study program, with the institution or other employer contributing about 20 percent. Since most of the CWS jobs are on-campus, the program can be viewed as an institutional aid program; this suggests that perhaps the institutional matching proportion should increase.

This would lead, so the argument goes, to schools having a greater stake in the effort and more jobs would be available for the same level of Federal appropriation. The down side of that argument is the increasing economic pressures on the colleges which will limit funds available for matching.

Options for creative use of the CWS program: The HEW regional hearings and interest groups have suggested a variety of interesting new approaches for the use of CWS funds. Many of these approaches could be and in fact are being administratively encouraged. Their inclusion here does not indicate an administration proposal for reauthorization.

Representatives of the interests of handicapped students have suggested the following modifications to CWS: First, legislation encouraging institutions to develop CWS jobs providing services needed by handicapped students, such as note-taking and reading for the blind, interpreting for the deaf, pushing wheelchairs, et cetera.

Second, encouragement to institutions to place more handicapped students in CWS jobs.

A second interesting idea stems from the problem that many students and parents do not know of the availability of Federal student aid funds. They do not know that BEOG's are available or that the loan programs are available. Often this is the case in particular for junior-high-school students who may be basing their plans on going into college curriculum courses in high school on the basis of a terrible lack of knowledge about the resources available to them to go to school.

One idea which could address this would be to encourage the institutions to give College Work-Study jobs to students in the colleges, who would go out to local junior high schools and talk to PTAs and other parents groups about the student aid program. This kind of approach would capitalize on the benefits of peer contact. You would have college students who have already filled out student aid forms and run through the rest of the student aid process showing high school students how to accomplish each step. It would also give the college work-study students a good experience. So, it has a lot of potential in it.

A third area mentioned by a lot of people is the encouragement of more jobs related to students' academic programs and career plans. This proposal has a number of advocates and some drawbacks.

The advocates argue the program itself will help the student with his schoolwork if you can place him with a professor in a related discipline. On the other hand it would change the focus of the program to being more of a cooperative education program. That consideration has to be taken into account.

Finally, a fourth area is encouraging student employment in off-campus jobs. Roughly 85 percent of all CWS jobs are on-campus. Some critics of this predominance of on-campus CWS jobs feel that institutions should be encouraged to develop more off-campus CWS jobs—particularly jobs serving needy populations. For example, in the regional hearings HEW has been urged to: First, link the CWS program with the needs of students in public schools. One approach would be to provide special incentives to encourage colleges to place CWS students as teacher aids, or tutors. Services provided by CWS participants could be limited to after-school and weekend activities which supplement the regular school program.

Second, encourage institutions to place CWS students in nonprofit agencies providing assistance to handicapped, elderly, or other needy citizens.

One excellent example of the use of CWS funds for off-campus, public service jobs is the arrangement which has existed since 1966 between colleges in the New York City area and a municipal agency known as the New York Urban Corps. This municipal agency was specifically created to place CWS participants in positions throughout the city government.

The arrangement works in the following manner. Federal CWS funds are allocated to the college. The college contracts with the Urban Corps to place a portion of its CWS participants in off-campus jobs in the city government. Prospective CWS participants are given a choice between an on-campus job, an off-campus nonprofit job, or a job in city government. If the student is interested in employment with the city, he fills out an application and specifies which of 26 different categories of jobs—including research assistant, legal aide, recreation worker, architectural assistant, and many others—he would accept. The Urban Corps attempts to match the student's application with the job openings it receives from city agencies. When a student is placed in a job, his institution provides the 80-percent Federal share of his wages, and the city government provides the other 20 percent.

In academic year 1978–79, the Urban Corps received 9,000 requests for CWS workers from more than 85 different agencies of city government. Final allocations to the Urban Corps from the city budget permitted the placement of 3,000 CWS students.

I think this is a good example of the innovative and exciting things that can be done by reaching out beyond the college campuses.

This concludes my testimony and I would be pleased to respond to any questions.

Mr. Bailey. Thank you very much.

Chairman Ford.

Mr. Ford. Thank you. I have no questions.

Mr. Bailey. Mr. Jeffords.

Mr. Jeffords. What percentage of handicapped students are participating in the CWS program?

Mr. Smith. I cannot say. The one drawback to the proposal to encourage institutions to put handicapped students into work-study is the problem of defining what a handicapped student is. For some it is very simple; for others, it is not so simple. So we do not know. We do know that some fairly small proportion of students within institutions are really handicapped. The effort that institutions could make in this area with relative ease could address an awful lot of the handicapped students' needs.

Mr. JEFFORDS. You are familiar with Senator Williams' bill, which would expand eligible employers of work-study students into the private sector. Have you any reaction to the bill, and whether if we adopt such a concept the match should be on a different level, and if so, would that not allow for more students to participate?

Mr. SMITH. Speaking for myself, not for the administration, I believe the match for employers in the profitmaking sector should be larger. The drawbacks to the implementation of any bill like that would be the difficulty in assuring that regular full-time workers or part-time workers are not displaced. A variety of approaches to this problem has been proposed. One would be to limit CWS participation to just small industry or small businesses with less than 20 employees so you would have a better handle on whether or not you were displacing somebody.

My sense right now is that the number of jobs could be greatly expanded by continuing the work in the public sector and we do not need to go to the private sector to increase the number of jobs.

Mr. JEFFORDS. I note with some concern that the President's budget request for CWS programs is $50 million less than it was in 1979. Can you tell me why and what that means from the point of view of the administration's feelings on this program?

Mr. SMITH. The administration strongly supports the program. In fiscal year 1979, the administration's initial budget request for CWS was $450 million. We later submitted—as part of the President's legislative package to assist middle-income students—a supplemental request for an additional $150 million, bringing the total administration request for CWS in fiscal year 1979 to $600 million. The President's legislative package for middle-income students relied heavily on the CWS program. The House and Senate put somewhat less emphasis on CWS in the final Middle Income Student Assistance Act—MISAA. The Congress appropriated $550 million in fiscal year 1979—the first year of implementing MISAA.

The President's budget request for fiscal year 1980 is $550 million, an amount equal to the appropriation level last year. This $550 million may well meet a large percentage of the demand out there.

Mr. JEFFORDS. You mean the demand was less than was appropriated last year?

Mr. SMITH. No. Institutional requests were greater than appropriated funds in fiscal year 1979. The CWS program is forward funded; that is, the fiscal year 1979 appropriation of $550 million is used to meet institutional requests for academic year 1979-80. Institutional requests for Federal CWS funds in academic year 1979-80 totaled $614 million—$64 million in excess of the CWS funds appropriated for that year.

There is some possibility that institutional requests for CWS funds may stabilize or go down in the future as a result of the increase in BEOG funding and the broadened eligibility for guaranteed student loans provided by the Middle Income Student Assist-

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ance Act, but we'll need a couple of years to see exactly what the effects of MISAA will be.

At this point we can say that the fiscal year 1979 appropriation of $550 million satisfied 90 percent of the aggregate institutional requests for that year. This is an improvement over fiscal year 1978, in which the appropriation of $435 million met 85 percent of the aggregate institutional requests for that year.

Mr. **Jeffords**. If Congress were to increase the authorization for college work-study, could the campuses use the money? In other words, is there enough demand there?

I am still a little confused. What you are saying is the demand is down; therefore the campuses and students do not need the help?

Mr. **Smith**. Yes, the figures just cited seem to indicate that institutions could use additional CWS funds; in fiscal year 1979 institutions asked for $64 million more than they got.

Mr. **Jeffords**. Does the $614 million in institutional requests demand for fiscal year 1979 represent the total institutional need in that year?

Mr. **Smith**. The $614 million represents the institutions' fiscal year 1979 requests for Federal CWS funds. Under the 20 percent institutional matching requirement in the CWS statute, institutions would contribute another $154 million. Therefore we presume that the aggregate need for CWS funds—from both Federal and institutional sources—may be in the neighborhood of $768 million in fiscal year 1979.

Mr. **Jeffords**. That is all I have.

Mr. **Bailey**. Thank you, Mr. Jeffords.

Mr. Smith, just one very brief question. You may not know the answer. But you mentioned in your statement, there was a study done on student persistence. What instigated that study? Was it routine? Why was it done? Why was there a question—where did the question of student persistence originate?

Mr. **Smith**. A considerable number of students drop out and, over 50 percent do not complete the 4 years of college. When people are looking at longitudinal college data and collecting information as to whether the student receives a grant and what his income is, they often investigate the dropout phenomenon and one of the questions they look at is whether work gets in the way of the student.

Mr. **Bailey**. It was not a focus?

Mr. **Smith**. It turned out to be a focus after the investigators got preliminary indications. There are critics of the findings. We cannot run social experiments but in my view, at least, there is some logic behind the finding that there may be a relationship between college work-study and persistence.

Mr. **Bailey**. A positive relationship?

Mr. **Smith**. Yes.

Mr. **Bailey**. Mr. Chairman.

Mr. **Ford**. The students tell us a third of the colleges have waivers permitting payment of a substandard minimum wage. How is that possible and what is the social objective involved in creating a job for the express purpose of providing educational resources and then letting the institution pay a substandard wage?

Mr. SMITH. The law is silent about the level of student pay. The regulations theoretically require the Federal minimum wage but include waiver provisions for public and private institutions.

Mr. FORD. Do you think we can justify continuing that type of law especially in light of your answer to the question as to inability to determine why the number of requests is dropping?

Mr. SMITH. I believe it is difficult to sustain the argument that a Federal program should have a subminimum wage structure. The argument on the other side is that public institutions in some States in some instances may have students doing the same jobs as the CWS students and they pay less than the minimum wage. If you forced all the institutions to pay the same wage, you would have some inequity. I personally do not find that compelling.

Mr. FORD. Is one led to believe there is some temptation on the part of an institution to use the college work-study as a subsidy for the institution's own maintenance budget rather than was originally intended, as primarily a source of student aid?

Mr. SMITH. I do not know of evidence that suggests that. I will look into it.

Mr. FORD. I see no evidence that our colleges are inhabited at the executive level by great labor liberals. I have been surprised at what I did not know about the antiquated attitudes toward their employees that colleges and universities have. We should not expect, if we leave the students to their tender mercies, they will be treated any better.

I wonder if someone at your shop could supply us with whatever information you have as to the character of the institutions that have been asking for and getting these waivers.

It was made clear to this committee last year that in one part of the country, an administrator regarded the work-study program as having as its greatest value the opportunity to teach young people the value of the work ethic. At the same time, it was indicated almost unintentionally, perhaps, that if we just beefed up the work-study program, it would make it a lot easier for the type of institutions this person was in, in the part of the country he was coming from, to keep up with the cost of inflation. It really did constitute a substantial subsidy to the operating costs of his type of institution.

Now, I would like to see who it is who has been asking for and getting the waivers to pay minimum wages so I can then ask them what the rationale is for educators to ask the Federal Government to provide money on their campus for the purpose of supporting the education of students on their campus, then chiseling by asking to pay them the minimum wage. I use the word "chisel" advisedly.

Mr. SMITH. I will be pleased to give you that list.

Mr. BAILEY. Thank you, Mr. Chairman.

The subcommittee will recess and will return after this vote.

[Recess.]

[Questions and answers referred to above follow:]

Question from Mr. Ford (pages 24 and 25)

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Mr. Smith. I will be pleased to give you that list.

Insert for page 25 -- Characteristics of institutions applying for and receiving waivers allowing them to pay wages below the Federal minimum to CWS participants

Public institutions that wish to pay CWS students a wage below the Federal minimum must apply to the Office of Education (OE) for a waiver. Attachment A provides a copy of the letter that OE sends to public institutions requesting approval to pay less than the Federal minimum hourly wage rate to CWS participants. The letter specifies the terms under which an institution may pay less than the Federal minimum. Attachment B provides a listing by state of the 189 public institutions that had been granted (as of June 1979) waivers for academic year 1979-80.

Private institutions must apply to the Department of Labor (DOL) for a certificate of waiver if they wish to pay CWS wages below the Federal minimum wage. DOL does not keep a list of the institutions granted waivers in each academic year; they do maintain copies of institutional applications for waivers. Attachment C provides a sample application. At the request of OE staff, DOL has recently sent to the Office of Education copies of institutional applications received by DOL in 1978 and 1979; these totaled 900. The Office of Education has forwarded copies of these 900 applications to the House Subcommittee on Postsecondary Education under separate cover.

Attachment A

SAMPLE LETTER FROM THE OFFICE OF EDUCATION TO A PUBLIC INSTITUTION THAT REQUESTS APPROVAL TO PAY LESS THAN THE FEDERAL MINIMUM WAGE TO COLLEGE WORK-STUDY PARTICIPANTS

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
BUREAU OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202

Dear

Thank you for your recent request concerning approval to pay less than the Federal minimum hourly wage rate to College Work-Study students from July 1, 1979 - June 30, 1980.

We are hereby granting your institution a waiver to pay less than $2.90 per hour (but not less than 85% of minimum wage) to CWS students beginning July 1, 1979. This waiver is predicated on the assumption that your institution is able to demonstrate that such a lower rate is consistent with and promotive of the purposes of the College Work-Study Program. This is to remind you that the sub-minimum hourly rate set by your institution must compensate CWS students on the basis of skills and abilities needed to perform the job, the prevailing rate locally for a comparable part-time job, and any applicable Federal, state or local legislation requiring a particular rate.

As you know, imposing a sub-minimum wage simply affects the total hours worked. Once a student's need is determined to be met fully or in part by CWS compensation, the hourly rate merely governs the number of hours of work necessary to earn that compensation. It does not provide more of the allocation to go to more students.

If you should have any questions regarding this waiver of the minimum wage requirement, please contact Janet Buntebart, Acting Chief, Administrative Analysis Section, Institution and Lender Certification Branch at (202) 245-1744.

Sincerely yours,

Richard A. Hastings
Acting Deputy Director, Division
of Certification and Program Review
Bureau of Student Financial Assistance

Attachment B

LIST OF PUBLIC INSTITUTIONS GRANTED APPROVAL BY THE OFFICE OF EDUCATION TO PAY LESS THAN THE FEDERAL MINIMUM WAGE TO COLLEGE WORK-STUDY PARTICIPANTS IN ACADEMIC YEAR 1979-80

Alabama

1. Athens State College
   Athens, Alabama
2. Booker T. Washington Business College
   Birmingham, Alabama
3. Brewer State Junior College
   Fayette, Alabama
4. Jacksonville State University
   Jacksonville, Alabama
5. Southern Vocational Community College
   Tuskegee, Alabama
6. Snead State College
   Boaz, Alabama
7. University of Montevallo
   Montevallo, Alabama
8. University of North Alabama
   Florence, Alabama
9. Auburn University
   Auburn, Alabama 36830
10. The Troy State University System
    Troy, Alabama 36081
11. Northeast Alabama State Junior College
    Rainsville, Alabama 35986

American Samoa

1. Government of American Samoa
   Pago Pago, American Samoa 96799

Arizona

1. Arizona State University
   Tempe, Arizona
2. Eastern Arizona College
   Thatcher, Arizona
3. North Arizona University
   Flagstaff, Arizona
4. University of Arizona
   Tucson, Arizona
5. Pinal County Community College District
   Coolidge, Arizona 85228
6. Cochise College
   Douglas, Arizona 85607

Arkansas

1. Arkansas Technical University
   Russellville, Arkansas
2. Henderson State University
   Arkadelphia, Arkansas
3. University of Central Arkansas
   Conway, Arkansas 72032

California

1. Antelope Valley College
   Lancaster, California 93534

Colorado

1. Colorado State University
   Fort Collins, Colorado 80523

2. University of Colorado
   Boulder, Colorado 80309

3. Adams State College
   Alamosa, Colorado 81102

4. Adams State College
   Alamosa, Colorado 81102

Connecticut

1. University of Hartford
   West Hartford, Connecticut 06117

Florida

1. Manatee Junior College
   Bradenton, Florida

2. Pensacola Junior College
   Pensacola, Florida 32504

Georgia

1. Columbus College
   Columbus, Georgia

2. Georgia Southern College
   Statesboro, Georgia

3. West Georgia College
   Carrollton, Georgia

4. Macon Junior College
   Macon, Georgia 31206

5. Valdosta State College
   Valdosta, Georgia 31601

Idaho

1. University of Idaho
   Moscow, Idaho

Illinois

1. Oakton Community College
   Morton Grove, Illinois

Indiana

1. Indiana State University Evansville
   Evansville, Indiana 47712

2. Indiana State University
   Terre Haute, Indiana 47809

Iowa

1. North Iowa Area Community College
   Mason City, Iowa

2. Southwestern Community College
   Creston, Iowa

Kansas

1. Cloud County Community College
   Concordia, Kansas

2. Cowley County Community College
   and Vocational Technical School
   Arkansas City, Kansas

3. Fort Scott Community College
   Fort Scott, Kansas

4. Highland Community Junior College
   Highland, Kansas

5. Pratt Community College
   Pratt, Kansas

6. Washburn University of Topeka
   Topeka, Kansas

Kentucky

1. Eastern Kentucky University
   Richmond, Kentucky

2. Highland Kentucky University
   Highland Heights, Kentucky

3. Murray State University
   Murray, Kentucky

4. Western Kentucky University
   Bowling Green, Kentucky

5. Morehead State University
   Morehead, Kentucky 40351

6. University of Louisville
   Louisville, Kentucky 40208

Louisiana

1. Louisiana State University
   at Alexandria
   Alexandria, Louisiana

2. Northeastern Louisiana University
   Monroe, Louisiana

3. University of Southwestern Louisiana
   Lafayette, Louisiana

4. T. H. Harris Vocational-Technical School
   Opelousas, Louisiana 70570

5. Northwestern State University of
   Louisiana
   Natchitoches, Louisiana 71457

6. Louisiana State University and
   Agricultural and Mechanical College
   Baton Rouge, Louisiana 70803

Maryland

1. Chesapeake College
   Wye Mills, Maryland 21679

Mississippi

1. Coahoma Junior College and
   Agricultural High School
   Clarksdale, Mississippi

2. Copiah-Lincoln Junior College
   Wesson, Mississippi

3. Delta State University
   Cleveland, Mississippi

4. Hinds Junior College
   Raymond, Mississippi

5. Holmes Junior College
   Goodman, Mississippi

6. Mississippi University for Women
   Columbus, Mississippi

7. Southwest Mississippi Junior College
   Summit, Mississippi

8. University of Southern Mississippi
   Hattiesburg, Mississippi

9. Mississippi Delta Junior College
   Moorehead, Mississippi 38761

Missouri

1. East Central Junior College
   Union, Missouri

2. Missouri Southern State College
   Joplin, Missouri

3. Northeast Missouri State University
   Kirksville, Missouri

4. Trenton Junior College
   Trenton, Missouri

5. Central Missouri State University
   Warrensburg, Missouri 64093

6. Southeast Missouri State University
   Cape Girardeau, Missouri 63701

7. University of Missouri
   Columbia, Missouri 65211

North Carolina

1. Western Carolina University
Cullowhee, North Carolina 28723

2. Cleveland County Technical Institute
137 South Post Road
Shelby, North Carolina 28150

North Dakota

1. Lake Region Junior College
Devils Lake, North Dakota 58301

2. North Dakota State University of
Agriculture and Applied Science
Fargo, North Dakota 58102

New Hampshire

1. University of New Hampshire
Durham, New Hampshire 03624

2. Plymouth State College of the
University System of New Hampshire
Plymouth, New Hampshire 03264

3. Keene State College
Keene, New Hampshire 03431

New Mexico

1. Western New Mexico University
Silver City, New Mexico

New York

1. Adirondack Community College
Glens Falls, New York

2. Cayuga County Community College
Auburn, New York

3. Erie Community College
Buffalo, New York

4. Jefferson Community College
Watertown, New York

5. Niagara County Community College
Sanborn, New York

6. Orange County Community College
Middletown, New York

7. State University of New York
Agricultural and Technical College
Delhi, New York

8. Sullivan County Community College
Loch Sheldrake, New York

9. Broome Community College
Binghamton, New York 13902

10. State University of New York
at Albany
Albany, New York 12222

11. State University of New York
College at Purchase
Purchase, New York 10577

12. State University College at Brockport
Brockport, New York 14420

13. State University of New York
at Oswego
College of Arts and Science
Oswego, New York 13126

14. State University of New York
College at Cortland
Cortland, New York 13045

15. State University of New York
College at Old Westbury
Long Island, New York 11568

16. State University of New York
at Stony Brook
Long Island, New York 11794

17. Empire State College
Saratoga Springs, New York 12866

18. State University of New York
at Binghamton
Binghamton, New York 13901

19. State University of New York
at Buffalo
Buffalo, New York 14260

20. State University College
at Buffalo
Buffalo, New York 14222

21. SUNY College of Technology
Utica, New York 13502

22. State University of New York
College at Plattsburgh
Plattsburgh, New York 12901

23. Fulton-Montgomery Community
College
Johnstown, New York 12095

24. State University of New York
Agricultural and Technical
College
Canton, New York 13617

25. State University of New York
Agricultural and Technical
College
Cobleskill, New York 12043

26. Dutchess Community College
Poughkeepsie, New York 12601

27. Herkimer County Community College
Herkimer, New York 13350

28. Auxiliary Service Corporation of
the Agricultural and Technical
College
Farmingdale, New York 11735

Ohio

1. Bowling Green State University
   Bowling Green, Ohio

2. Cleveland State University
   Cleveland, Ohio

3. Miami University
   Miami, Ohio

4. Ohio University
   Athens, Ohio

5. University of Akron
   Akron, Ohio

6. The University of Toledo
   Toledo, Ohio 43606

7. University of Cincinnati
   Cincinnati, Ohio 45221

Oklahoma

1. Northwest Oklahoma State University
   Alva, Oklahoma

2. Panhandle State University
   Goodwell, Oklahoma

3. Sayre Junior College
   Sayre, Oklahoma

4. University of Oklahoma
   Norman, Oklahoma

Oregon

1. University of Oregon
   Eugene, Oregon 97403

2. Southern Oregon State College
   Ashland, Oregon 97520

3. Eastern Oregon State College
   La Grande, Oregon 97850

4. Oregon College of Education
   Monmouth, Oregon 97361

5. Oregon State University
   Corvallis, Oregon 97331

6. Oregon Institute of Technology
   Klamath Falls, Oregon 97601

Pennsylvania

1. East Stroudsburg State College
East Stroudsburg, Pennsylvania

2. Clarion State College
Clarion, Pennsylvania 16214

3. Lock Haven State College
Lock Haven, Pennsylvania 17745

4. Mansfield State College
Mansfield, Pennsylvania 16933

5. Millersville State College
Millersville, Pennsylvania 17551

6. Slippery Rock State College
Slippery Rock, Pennsylvania 16057

7. California State College
California, Pennsylvania 15419

8. Edinboro State College
Edinboro, Pennsylvania 16444

9. Indiana University of Pennsylvania
Indiana, Pennsylvania 15701

10. Kutztown State College
Kutztown, Pennsylvania 19530

11. West Chester State College
West Chester, Pennsylvania 19380

12. Shippensburg State College
Shippensburg, Pennsylvania 17257

13. Cheyney State College
Cheyney, Pennsylvania 19319

14. Temple University
Philadelphia, Pennsylvania 19122

Puerto Rico

1. University of Puerto Rico
   San Juan, Puerto Rico 00936

South Carolina

1. Clemson University
   Clemson, South Carolina

2. Francis Marion College
   Florence, South Carolina

3. Lander College
   Greenwood, South Carolina

4. South Carolina State College
   Orangeburg, South Carolina

5. Winthrop College
   Rock Hill, South Carolina

6. University of South Carolina
   Columbia, South Carolina 29208

South Dakota

1. Black Hills State College
   Spearfish, South Dakota

2. Mitchell Area Vocational
   Technical School
   Mitchell, South Dakota

3. Northern State College
   Aberdeen, South Dakota

4. South Dakota State University
   Brookings, South Dakota 57006

Tennessee

1. Austin Peay State University
   Clarksville, Tennessee

2. Johnson Bible College
   Knoxville, Tennessee

3. University of Tennessee at Chattanooga
   Chattanooga, Tennessee

4. University of Tennessee
   Knoxville, Tennessee

5. University of Tennessee at Martin
   Martin, Tennessee

6. Middle Tennessee State University
   Murfreesboro, Tennessee 37132

Texas

1. Angelo State University
San Angelo, Texas

2. Hill Junior College
Hillsboro, Texas

3. Lamar University
Beaumont, Texas

4. Tarleton State University
Stephenville, Texas

5. Temple Junior College
Temple, Texas

6. Texas A&M University
College Station, Texas

7. Western Texas College
Snyder, Texas

8. West Texas State University
Canyon, Texas

9. McLennan Community College
Waco, Texas 76708

10. Dallas County Community College District
Dallas, Texas 75202

11. East Texas State University
Commerce, Texas 75428

12. Southwest Texas State University
San Marcos, Texas 78666

13. Sul Ross State University
Alpine, Texas 79830

14. Stephen F. Austin State University
Nacogdoches, Texas 75962

Virginia

1. Dabney S. Lancaster Community College
   Clifton Forge, Virginia

2. James Madison University
   Harrisonburg, Virginia

3. Longwood College
   Farmville, Virginia

4. Radford College
   Radford, Virginia

5. The College of William and Mary
   Williamsburg, Virginia 23185

6. Christopher Newport College
   Newport News, Virginia 23606

7. Old Dominion University
   Norfolk, Virginia 23508

Vermont

1. Vermont Technical College
   Randolph Center, Vermont 05061

Washington

1. The Evergreen State College
   Olympia, Washington

2. Washington State University
   Pullman, Washington 99164

3. Eastern Washington University
   Cheney, Washington 99004

West Virginia

1. Fairmont State College
   Fairmont, West Virginia

2. Glenville State College
   Glenville, West Virginia

3. West Virginia State College
   Institute, West Virginia

4. West Virginia University
   Morgantown, West Virginia 26506

Wyoming

1. Northwestern Community College
   Powell, Wyoming

Attachment C

SAMPLE APPLICATION TO THE DEPARTMENT OF LABOR FROM AN INSTITUTION THAT REQUESTS APPROVAL TO PAY LESS THAN THE FEDERAL MINIMUM WAGE TO COLLEGE WORK-STUDY PARTICIPANTS

U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
Wage and Hour Division

OF HIGHER EDUCATION TO EMPLOY ITS FULL-TIME STUDENTS AT SUBMINIMUM WAGES UNDER REGULATIONS PART 519

JUN 19 1979

IMPORTANT: Please use typewriter or ball point pen *(writing firmly)* to complete this application. After completion, detach and retain only copies 6 and 7. Forward the remainder, INTACT, to the Office of the Wage and Hour Division serving your area. Temporary authority to employ full-time students at subminimum wages is effective when this form is properly completed and forwarded to the appropriate Wage Hour Office. This temporary authority may be effective for a period of up to one year, provided that within 30 days of forwarding, the Administrator of the Wage and Hour Division does not deny the application, issue a certificate with modified terms or conditions, or expressly extends the 30-day period of review. No authorization may be granted unless a completed application form has been received. (29 CFR, Part 519)

1. Name and address of the college or university at which full-time students are to be employed at subminimum wages:

EMMANUEL COLLEGE
PO BOX 128
FRANKLIN SPRINGS, GA. 30639

(A separate application is needed for each campus.)

2. Have you had a previous subminimum wage authority under Regulations Part 519?

☐ No ☒ Yes If "Yes", enter:

a. Expiration Date: 7-4-78

b. Number of full time students employed at subminimum wages at the campus during the previous 12 months:

142

3. Number of Full-Time Students Employed at the Campus during the Previous 12 Months Regardless of Wage Rate: 142

4. Number of Full-Time Students Expected to be Employed at Subminimum Wages at the Campus During the Next 12 Months: 150

5. Lowest Subminimum Hourly Rate to be Paid Full-Time Students at the Campus *(Not less than 85 percent of the applicable statutory minimum)*:

2.2525
2.46½ effective 1/1/79

6. Representations, certification, and signature:

I certify as set forth in Regulations Part 519 Subpart B, governing the employment of full time students at subminimum wages that the following conditions exist at the above campus:

a. The granting of the authority requested is necessary to prevent curtailment of opportunities for employment;

b. The employment of full-time students at subminimum wages will not create a substantial probability of reducing the full time employment opportunities of other persons;

c. Full time students are available for employment at subminimum wages;

d. Abnormal labor conditions, such as a strike or lockout do not exist in the unit(s) of the campus for which authority is sought;

e. Full time students will not be employed at subminimum wages in unrelated trades or businesses, as defined and applied under Sections 511 through 515 of the Internal Revenue Code;

f. There are no serious outstanding violations of the provisions of previous authority to employ full-time students nor of other provisions of the Fair Labor Standards Act;

g. The granting of the authority will not result in a reduction of a wage rate paid to a current employee, including current student employees.

July 4, 1979

7. Authorized representative (print or type): DOROTHY M. FERGUSON

8. Signature of authorized representative: Dorothy M. Ferguson

9. Title (print or type): BUSINESS MANAGER

10. Telephone number (Including area code): 404-245-7226 EXT. 25

11. Date application forwarded: 6-7-79

Copy 2 - NO

Form WH-201
(Sept. 1976)

[Prepared testimony of Mr. Smith follows:]

TESTIMONY OF

MARSHALL S. SMITH

Assistant Commissioner for Policy Studies

U.S. Office of Education

Chairman Ford and Members of the Subcommittee:

Thank you for the invitation to appear before you today. I have been asked by the Chairman to: (1) provide background information on the operation and effectiveness of the College Work-Study Program, (2) outline some of the major issues involved in reauthorizing this Program, and (3) suggest options for creative new uses of CWS funds. Today I will review quickly the background information provided in the first part of this written testimony in order to spend the bulk of my time with you on the issues and options.

PART I

OVERVIEW OF THE COLLEGE WORK-STUDY (CWS) PROGRAM

Program purpose

The objective of the CWS Program is to promote the part-time employment of students with demonstrated financial need who are attending institutions of post-secondary education. Students enrolled at least half-time as a graduate, undergraduate or vocational student in an approved postsecondary education institution are eligible for CWS assistance. The Program provides grants to institutions for partial reimbursement of wages paid to students working on-campus or off-campus in public or private nonprofit organizations. The Federal grant normally covers 80 percent of wages, with the remaining 20 percent being paid by the institution or an off-campus employer.

Legislative history

The College-Work-Study Program has undergone numerous legislative changes during its fifteen years of existence; I will highlight only a few of these.

President Johnson proposed the CWS Program on May 16, 1964 as part of the message outlining his "War on Poverty." The Program was enacted in that year as part of the Economic Opportunity Act. It was intended not only to furnish low-income students with a source of financial aid for college but also to harness some of this student manpower to the needs of poverty-stricken communities. In keeping with these dual purposes, the Program was originally located in the Office of Economic Opportunity.

The Higher Education Act of 1965 began to move the Program away from its initial poverty orientation by transferring the Program to the Office of Education and by broadening eligibility to include all students needing aid (with preference to low-income students), rather than limiting it solely to students from low-income families.

The CWS authorizing statute was not actually incorporated into the Higher Education Act until the Higher Education Amendments of 1968. These Amendments also removed the

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inferred link between CWS and OEO community action programs and made area vocational schools and proprietary institutions eligible for the Program.

The Education Amendments of 1972 emphasized the Program's transition from a poverty program to a need-based student financial aid program by deleting all references (except in the state allocation formula) to students from low-income families--substituting the term "with great financial need" and giving preference to students "with greatest financial need taking into account grant assistance provided such students from any public or private source." The '72 Amendments also authorized the participation of half-time students.

In 1975, the Emergency Technical Provisions Act (P.L. 94-43) added to the CWS statute a Job Location and Development component designed to encourage institutions to develop more off-campus jobs for students.

Funding history

As Table A indicates, appropriations for the College Work-Study Program are now ten times greater than they were at the Program's inception. Funding has grown from roughly $56 million in 1965 to $550 million in 1979. The number of students participating in CWS has increased from 115,000 in 1965 to an expected 990,000 in 1979. The President's FY 80 budget request for CWS is $550 million.

Program eligibility requirements

- Student Eligibility:

  The educational institution is responsible for both the determination of eligibility for the program and the selection of participants. Criteria for participation include: (a) the student must be in need of the earnings from such employment in order to pursue a course of study at the institution; (b) the student must show evidence of academic or creative promise and the capability of maintaining good standing in his course of study while employed under the College Work-Study Program; (c) the student must have been accepted for enrollment on at least a half-time basis, or if attending the institution already, must be in good standing and in attendance there on at least a half-time basis in an undergraduate, graduate, or professional program.

- Institutional Eligibility:

  Institutional eligibility is determined by the Office of Education based on the school's legal authorization by a state to provide a postsecondary program, its accreditation status, the length of its programs, and its admission requirements. Eligible institutions for the College Work-Study program include traditional public and private four-year colleges and universities, community and junior colleges, vocational schools, and proprietary schools.

o Employer eligibility

A wide range of jobs may be funded under the program, including work for the institution itself (except in the case of proprietary schools) and work for public or private non-profit organizations. The CWS statute does not permit work for profit-making enterprises or work that would result in the displacement of regularly employed workers.

Program scope

The number of institutions currently participating in the Program is 3230. Institutions not participating in the Program tend to fall into the following three categories. (1) The statute specifies that CWS participants in proprietary schools may not engage in work for the institution; this may be one of the reasons these institutions do not participate in CWS. Only 352 proprietary institutions participated in the Program in academic year 1978-79. (2) Small colleges with limited financial resources located in rural areas often find it difficult to generate CWS jobs and to provide the institutional match. (3) Public community colleges with very low tuitions and large numbers of older, already employed students often do not need to draw on CWS as a source of financial aid.

Our latest complete data for the CWS Program is from academic year 1976-77. In that year approximately 775,000 students benefited from the Program. The average annual student earnings, including the institutional matching share, amounted to an estimated $525 per student. About 18 percent of CWS funds helped finance off-campus jobs which were held by 16 percent of the CWS job holders. Gross compensation earned by students in academic year 1976-77 was almost $469.9 million; of this amount, Federal appropriations furnished $390 million (83%), with the remaining 17% being provided by institutions and other employers.

These CWS funds were distributed among institutions as follows:

- Public universities	39.5%
- Other four-year public institutions	8.0%
- Public two-year institutions	16.7%
- Private universities	15.4%
- Other four-year private institutions	14.9%
- Private two-year institutions	2.3%
- Public vocational institutions	1.9%
- Proprietary institutions	1.2%

Ninety-one percent of the funds went to undergraduates, while 9.0% was awarded to students at the post-baccalaureate level.

Distribution of funds

- o Allocation of funds among states and outlying areas
  - Two percent of the appropriation is reserved for Puerto Rico, American Samoa, Guam, the Virgin Islands and the Trust Territory of the Pacific Islands.
  - The statute also specifies a reserve of an unspecified amount to be used to make special awards to institutions that provide CWS assistance to students who reside in -- but attend eligible institutions outside of -- American Samoa or the Trust Territory of the Pacific Islands.
  - Of the remaining sums
    - -- 90% is distributed to the states and the District of Columbia according to a formula based on three equally weighted factors:
      - (1) The number of full-time higher education students each area has relative to the total number for the 52 areas.
      - (2) The number of high school graduates each area has relative to the total number for the 52.

(3) The number of related children under 18 years of age living in families with income of less than $3,000 each area has relative to the number for 52.

-- 10% is distributed on a discretionary basis by the Commissioner, with the proviso that these funds must be used first to ensure that all states receive at least the amount they received in FY 72.

o Distribution of funds to institutions within each state

The statute authorizes the Commissioner to establish criteria to guide the intrastate distribution of funds. As described in testimony given last week, the Department will soon publish final regulations that will replace the old panel review system for instrastate distribution with a new system that ensures institutions at least their 1977-78 level of expenditure for CWS and then distributes any new money on the basis of relative need for student aid among all institutions applying for CWS.

The new regulations guiding the intrastate distribution of CWS funds are for one year only; changes based on experience in implementing the regulations in the first year will be made in the regulations governing subsequent years.

- Institutional requests versus actual availability of CWS funds

  In FY 1978 institutional requests totaled $684,107,460 and the appropriation was $435,000,000.

  In FY 1979 institutional requests totaled $614,363,369 and the appropriation was $550,000,000.

  We don't know exactly why the institutional demand for funds decreased from 1978 to 1979. However, three possible factors contributing to the decrease might be the decline in the number of students; the increase in BEOG funding; and the new standardized procedures by which institutions develop their requests, based on the aggregate needs of the student body.

  Whatever the reasons, the FY 79 appropriation seems to come fairly close to institutional demand for funds. It is not clear that the institutions can absorb a substantial increase.

Operation of the Program at the campus level

The educational institution is responsible for job placement and payroll administration as well as the determination of eligibility and selection of students for participation. A lump sum award is made to the institution, which is then responsible for disbursement to the individual students. The amount any student may earn under the program is limited by his or her need, the rate of pay, the number of hours available to work, and the other financial aid the student is receiving.

An institution participating in CWS is entitled to receive an administrative expense allowance which may not exceed four percent of the total student earnings (or a total of $325,000 for all of the three campus-based programs). This allowance must be used first to provide current and prospective students with information about its academic programs, policies, and student aid; any part of the allowance remaining after the student information responsibility has been fulfilled may be used for other costs incurred in administering student aid programs.

Overall Program effectiveness

The CWS Program appears to be effective in stimulating the employment of needy students. The program is unquestionably popular with postsecondary institutions both as a student aid program and as a means of providing a pool of highly subsidized labor. This pool is also welcomed by other partipating non-profit institutions.

The CWS Program seems to be somewhat successful in promoting the Federal goal of equal access. A survey in September 1977 revealed the following facts about CWS participants at all eligible institutions:

- 55% were female
- 29.3% were from ethnic minorities
- 28.1% were dependent undergraduates from families with incomes less than $7500.

CWS participation for each of these subgroups is greater than the proportion of total postsecondary enrollment represented by that subgroup.

Effects of CWS and other student work on persistence

A study completed by Astin in 1975 concluded that CWS had beneficial effects on persistence, especially among women and blacks, with the most consistent positive impact on middle-income families. In examining the effect of various *packages* of financial aid on persistence among low-income students, Astin found the most effective package to be work-study and major loan support, with CWS alone next best. However, this finding is somewhat contradictory to a second finding that CWS combined with either minor grant or minor loan support tended actually to *increase* the likelihood of students dropping out of college.

When he considered student employment as a whole (including but not limited to CWS), Astin observed that more than two-thirds of all students were employed at some time while in college. On-campus employment was found to have a beneficial effect on persistence, and working anywhere less than 20 hours per week decreased the probability of dropping out by 10% for everyone. Off-campus and full-time (over 25 hours) jobs were not as successful. He translated these findings into a policy recommendation for an expanded work-study program that would enable every student who wanted a campus job to have one.

Critics of the Astin study point out the contradictory nature of some of his findings and to the fact that a student's tendency to persist may motivate him to work rather than the other way around. Nonetheless the study is provocative and stands as one of very few that have attemped to consider the difficult question of the effect of student assistance on persistence.

TABLE A

COLLEGE WORK-STUDY

FUNDING HISTORY 1/

Fiscal Year	Authorization	Appropriation 2/	Budget Request
1965	3/	$ 55,710,000	$ 5,000,000
1966	$129,000,000	99,123,000	84,000,000
1967	165,000,000	134,100,000	134,100,000
1968	200,000,000	139,900,000	139,900,000
1969	225,000,000	139,900,000	145,500,000
1970 4/	275,000,000	152,460,000	154,000,000
1971 4/	320,000,000	158,400,000 5/	160,000,000
1972	330,000,000	426,600,000 6/	971,300,000 7/
1973	360,000,000	270,200,000	250,000,000
1974	390,000,000	270,200,000	250,000,000
1975	420,000,000	420,000,000	250,000,000
1976	420,000,000	390,000,000	250,000,000
1977	450,000,000	390,000,000	390,000,000
1978	510,000,000	435,000,000	390,000,000
1979	600,000,000	550,000,000	600,000,000

1/ Annual Evaluation Report on Programs Administered by the U.S. Office of Education, FY 77, U.S. Dept. of HEW, Office of Education, Office of Planning, Budgeting and Evaluation; and budget documents for various years.

2/ Up until FY 1972, the CWS Fiscal Year appropriation was used to fund program operations during the calendar year. With FY 1972, the program became one full year forward-funded (i.e., the FY 79 appropriation will be used to make awards in academic year 1979-80).

3/ The Economic Opportunity Act of 1964 authorized a lump sum of $412,500,000 for three youth programs including College Work-Study.

4/ One percent of the College Work-Study appropriation was authorized to be used in support of Cooperative Education.

5/ Actual funds available for CWS in this year amounted to $199,700,000, including reprogrammed funds.

6/ Includes $244,600,000 forward funding for FY 1973, plus a supplemental of $25,600,000. A total of $237,400,000 was available for use during FY 1972 from a combination of FY 1971 and FY 1972 appropriations.

7/ Combined amount for College Work-Study, Educational Opportunity Grants, and Cooperative Education.

PART II

ISSUES AND CONCERNS RELATED TO THE CWS PROGRAM

A variety of issues and concerns related to the CWS Program have been brought to HEW's attention through analysis within the Department, HEW's regional hearings on reauthorization, and the proposals submitted to this Subcommittee by interest groups. I'd like to catalogue a few of these for you this morning.

Legislative clean-up

The CWS statute (which dates from the Economic Opportunity Act of 1964) does not accurately reflect the way the Program currently operates and the terms and definitions are not consistent throughout all of the student aid programs authorized by Title IV of the Higher Education Act.

State allocation formula

CWS funds are distributed among States according to a formula based on three equally weighted factors:

1. Each State's proportionate share of the national full-time enrollment in institutions of postsecondary education.
2. Each State's proportionate share of the number of high school graduates.

3. Each State's proportionate share of related children living in families with annual incomes less than $3,000.

These factors are not directly related to the purpose and clientele of the CWS Program. For example:

- The enrollment part of the formula does not include students enrolled less than full-time, yet CWS is available to students enrolled half-time or more.
- High school graduates -- the potential population to be served -- are weighted in the formula as heavily as the number of students actually enrolled in postsecondary education. With the growing number of adult students and returning students, the number of high school graduates may be a poor predictor of postsecondary enrollment. Also, high school graduates in a State are a poor predictor of future enrollment in a State; some States "export" many high school graduates to other States, while other States are large "importers."
- Including the number of related children under 18 years of age living in families with annual incomes under $3000 was appropriate at the inception of the program in 1964, when the program was limited to low-income students; but this restriction has long since been lifted to make all students needing aid eligible for

the Program, with preference being given to the most needy. The $3000 factor has never been updated for cost-of-living changes, but even if it were updated, it would have little direct substantive relationship to the current program.

The present State allotment formulas do not correspond directly to the need for funds which may be present in a State. Within schools, the funds are awarded to students on the basis of their financial need. Among schools within a State, the funds are also awarded on the basis of financial need. Yet among States, the formulas are primarily enrollment based.

Student eligibility and terms of payment

o Preference to students with greatest financial need

The CWS statute specifies that preference shall be given to students with the greatest financial need. Some interest groups argue that if we wish to have more middle-income students participating in CWS we may want to soften or eliminate this emphasis.

In considering this issue, however, it is important to remember that the effect of the Middle Income Assistance Act may be to build a stronger base of grant support for low-income students, thereby making them less needy and diverting some of the CWS funds to the middle income.

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Institutional funding arrangements

- **Matching**

  The CWS statute provides that the Federal government pays up to 80 percent of the cost of an institution's CWS Program, with the institution or other employer providing at least 20 percent. Since most CWS jobs are on campus, the CWS program can be viewed to be as much or more an institutional aid program as it is a student aid program; this concern leads to the suggestion that the institutional match should be larger than 20%. The school would have a greater stake in the effort and more jobs would be available for the same level of Federal appropriation. On the other side of the argument, however, are the increasing economic pressures on the colleges which will limit funds available for matching.

PART III

OPTIONS FOR CREATIVE USE OF THE CWS PROGRAM

The HEW regional hearings and interest groups have also suggested a variety of interesting new approaches for the use of CWS funds. Many of these approaches could be and in fact are being administratively encouraged. Their inclusion here does not indicate an administration proposal for reauthorization.

Encouraging participation by handicapped individuals in postsecondary education

Representatives of the interests of handicapped students have suggested the following modifications to CWS:

- o Legislation encouraging institutions to develop CWS jobs providing services needed by handicapped students, such as note-taking and reading for the blind, interpreting for the deaf, pushing wheelchairs, etc.
- o Encouragement to institutions to place more handicapped students in CWS jobs.

Providing information about student aid

Despite the variety of student information authorities in the Higher Education Act, many students and parents remain unaware of the availability of Federal student aid. The problem is particularly acute and important at the junior high school level. Many students and parents make decisions about entering non-college preparatory versus college preparatory tracks without the knowledge that help is available in financing a college education.

- One creative approach to this problem would be to encourage institutions to send CWS participants into nearby secondary schools to inform students about Federal financial aid.

Encouraging more CWS jobs related to students' academic programs or career plans

Students and professors have urged the Federal government to encourage institutions to develop more CWS jobs related to students' academic programs and career plans. Implementing this idea would require a greater awareness on the part of institutions about their range of options for using CWS funds on campus and a greater willingness among institutions to develop off-campus CWS jobs.

Encouraging student employment in off-campus, public-service jobs, particularly jobs serving disadvantaged populations

Roughly 85 percent of all CWS jobs are on-campus. Some critics of this predominance of on-campus CWS jobs feel that institutions should be encouraged to develop more off-campus CWS jobs -- particularly jobs serving needy populations. For example, in the regional hearings HEW has been urged to:

- Link the CWS Program with the needs of students in public schools. One approach would be to provide special incentives to encourage colleges to place CWS students as teacher aids, or tutors. Services provided by CWS participants could be limited to after-school and weekend activities which supplement the regular school program.

- Encourage institutions to place CWS students in non-profit agencies providing assistance to handicapped, elderly or other needy citizens.

One excellent example of the use of CWS funds for off-campus, public service jobs is the arrangement which has existed since 1966 between colleges in the New York City area and a municipal agency known as the New York Urban Corps. This municipal agency was specifically created to place CWS participants in positions throughout the city government.

The arrangement works in the following manner. Federal CWS funds are allocated to the college. The college contracts with the Urban Corps to place a portion of its CWS participants in off-campus jobs in the city government. Prospective CWS participants are given a choice between an on-campus job, an off-campus non-profit job, or a job in city government. If the student is interested in employment with the city, he fills out an application and specifies which of twenty-six different categories of jobs (including research assistant, legal aid, recreation worker, architectural assistant, and many others) he would accept. The Urban Corps attempts to match the student's application with the job openings it receives from city agencies. When a student is placed in a job, his institution provides the 80% Federal share of his wages, and the city government provides the other 20%.

In academic year 1978-79, the Urban Corps received 9,000 requests for CWS workers from more than 85 different agencies of city government. Final allocations to the Urban Corps from the city budget permitted the placement of 3,000 CWS students.

Mr. Ford [presiding]. We will hear from a panel now consisting of Joel Packer, United States Student Association, Washington, D.C.; Franklin D. Matsler, executive director, Illinois Board of Regents, American Association of State Colleges and Universities; Michael B. Goldstein, Coalition for Alternatives in Postsecondary Education, Washington, D.C.; Pat Kocian, Coalition of Independent College and University Students, Washington, D.C.; Rev. John M. Driscoll, O.S.A., president, Villanova University, president, Pennsylvania Association of Colleges and Universities; John Crowley, Association of American Universities, Washington, D.C.; and W. Arthur Switzer, associate director, financial aid, University of Pennsylvania Association of Student Aid Finance Administrators.

Without objection, the prepared statements submitted to the committee will be inserted in full at this point in the record and you may proceed to comment on your statements.

We will start with Mr. Packer.

STATEMENTS OF JOEL PACKER, U.S. STUDENT ASSOCIATION, WASHINGTON, D.C.; FRANKLIN D. MATSLER, ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES; MICHAEL B. GOLDSTEIN, COALITION FOR ALTERNATIVES IN POSTSECONDARY EDUCATION, WASHINGTON, D.C.; PAT KOCIAN, COALITION OF INDEPENDENT COLLEGE & UNIVERSITY STUDENTS, WASHINGTON, D.C.; REV. JOHN M. DRISCOLL, O.S.A., PRESIDENT, VILLANOVA UNIVERSITY, PRESIDENT, PENNSYLVANIA ASSOCIATION OF COLLEGES AND UNIVERSITIES; JOHN CROWLEY, ASSOCIATION OF AMERICAN UNIVERSITIES, WASHINGTON, D.C.; AND W. ARTHUR SWITZER, ASSOCIATE DIRECTOR, FINANCIAL AID, UNIVERSITY OF PENNSYLVANIA ASSOCIATION OF STUDENT AID FINANCE ADMINISTRATORS

STATEMENT OF JOEL PACKER, U.S. STUDENT ASSOCIATION

Mr. Packer. I would like to thank you for the opportunity to be here once again.

The work-study program—CWS—under consideration here today is one of the most popular of the Federal student aid programs. Not only does CWS provide needed financial assistance to eligible students, it also allows these students to gain work experience, provides needed services to the institution, and in the case of off-campus jobs helps improve campus-community relations.

Our recommendations are relatively simple, though not necessarily noncontroversial. In general USSA believes that CWS is working well, and should be expanded, with certain modifications. The main areas we see in need of improvement are: efforts to provide more academically and vocationally relevant work experiences, allow jobs in the off-campus, for-profit sector, to allow students who have their need met to continue to receive CWS in certain cases, and most important to us, prohibit payment of subminimum wages. My statement goes through some of the history and operation of the program but I will skip over this because Mike Smith covered that in his testimony.

I will go to some of our recommendations. Our first recommendation which we submitted to you as part of our legislative package is that CWS be authorized through fiscal year 1985 and that the authorized funding levels continue to modestly increase from the

$720 million currently authorized for fiscal year 1982 to $900 million in fiscal year 1985. As mentioned earlier work study is a popular, efficiently run program. Any program that can be commented on favorably by both AFL-CIO and the U.S. Chamber of Commerce, as occurred in 1974 before the Special Subcommittee on Education of the House, must be doing something right.

Our second recommendation is that work-study jobs, if possible, be meaningful work opportunities for students and not just financial assistance. The manual the Office of Education puts out has several pieces in there that talk about encouraging worthwhile job opportunities. It mentions how such opportunities benefit not just the students, but the institution and the employer.

We have some quotes in our testimony which I will not read through now but they just go to show the Office of Education has tried to provide some encouragement.

I want to mention a study that was done in 1973 by the Office of Education which lends support to these statements. Twice as many students who worked on campus rather than off campus saw zero advantages to their jobs, while 65 percent of the offcampus compared to 47 percent of the on-campus students cited four or more advantages to their work experiences. Sixty-seven percent of off-campus students felt they acquired useful career skills, compared to only 41 percent of those working for the institution. Most interesting was the fact that 80 percent of the employers believed that the students had developed positive work attitudes when working off campus. The figure for the oncampus group was only 25 percent.

The summary of the report concludes by saying, "* * * [CWS] can do more than provide dollars, more than create leaf rakers or clerks for institutions of higher education [CWS] can serve as a means of education for life." We think this is something the committee can work to emmphasize by making a few statutory changes.

Quickly to run this down, I will summarize them. We think the purpose of the section should be amended to provide clarity that CWS should provide meaningful work opportunities related to the students' educational or vocational programs.

Amend the terms of the agreement that an institution enters into with the Office of Education to participate in work study to state that "institutions will make every effort to provide a work-learning opportunity consistent with the educational or vocational programs and goals of the student."

Our second recommendation in this area would be in the realization that it costs a lot of money to develop off-campus jobs. There are a lot of administrative expenses involved. There is a section which provides that institutions which establish a minimum of 50 percent of their jobs as educational, to spend 20 percent of their work-study allotment or $30,000, whichever is less, for job-location services. We think this additional language will go towards expanding the number of jobs.

Last, in the area that talks about use of matching funds for work study, we think there should be language in there to encourage the Commisioner to try to have work-study funds used in conjunction with other work-education activities, such as a cooperative education program helping to provide further linkages in that area.

Our second broad area would be to allow limited numbers of work-study jobs in the private sector.

Currently, CWS may only be used for employment at the institution, except in the case of proprietary schools, and at off campus, not-for-profit employers. Our proposal would allow an institution to utilize up to 20 percent of its CWS allotment to establish jobs in the for-profit sector. A limit of 50 percent of Federal compensation is established, as opposed to the 80 percent share for jobs in nonprofit institutions.

Our next recommendation is the issue of paying subminimum wages to students. This is one of our top priorities. It has been endorsed by COPUS and endorsed by the AFL-CIO and AFT. An example of the effects of paying subminimum wages to students, thereby forcing them to work longer hours, can be seen in the following quote from a student who testified at hearings held by the College Scholarship Service's Student Committee:

> There was the job, the long hours, the effort, the lack of free time, it all said that every waking hour was filled: study, class, work, sleep. But the wages were a joke. The man next to me at the library made just over twice what I did, and he didn't need it. Each hour I worked I went down about 75 cents, compared to what I needed just to say in school. But I had to keep it up or I would be down $2.75 and lose the grant as well.

Just to explain the current situation about subminimum wages because it is a little complicated, public institutions are completely exempt from paying minimum wages to any of their employees due to a Supreme Court decision in 1976.

The Court there found that it was unconstitutional for the Federal Government to regulate States as States and, therefore, couldn't impose its minimum wage standards on the States. However, in work-study, public institutions are required to pay minimum wages because in this case they are being regulated as institutions who are recipients of Federal grants.

The Commissioner can approve a waiver of the minimum wage requirement allowing him to pay 85 percent of the wage if such a lower rate is promotive of the purposes of the college work-study program.

We have attached to our testimony an example of a waiver letter.

Private colleges are covered by Federal minimum wage laws. However, they are allowed, under the Department of Labor regulations, to pay subminimum wages if they are issued a certificate by the Secretary of Labor.

The Office of Education has decided to utilize the certificate for payment of subminimum wages for noncollege work-study jobs by private institutions to also allow them to pay subminimum wages for work-study employees even though the regulations to get the waiver from the Department of Labor are much more lenient than the Office of Education's own waiver.

Even though there is a difference it really doesn't matter because the Office of Education grants waivers without any justification from institutions. They don't follow up, and we have attached to our testimony about 15 pages of testimony between the Oregon student lobby and the Office of Education showing how the Oregon

State system had sent about a half-page letter asking for a waiver of minimum wage for all the Oregon State system colleges.

The student lobby sent about 20 pages of documentation of why the waiver should not be granted. The Office of Education granted the waiver. They basically say they don't have the time or staff to fulfill their own regulations.

We have provided the committee with a report which lists all the public institutions which have asked for a waiver of subminimum wages. The Department of Labor has gotten requests from over 700 private colleges but they were unable to provide us with a list of them even though they are supposed to check to see if the institutions are meeting requirements.

The whole problem with the subminimum wage is an interesting one because the student is given a specific amount of money to earn so all that payment does is make them work longer hours to earn their award. It simply allows the institution to get more work out of that student for the same amount of money.

The benefits to students from the subminimum wages are absolutely none and we believe are completely inconsistent with the intent of the program since they create an adverse effect on the program since it requires them to take more hours from study to put them into work.

In a letter from then Chairman of the House Special Subcommittee on Education James O'Hara to then Secretary of Labor Brennan on May 14, 1974, Representative O'Hara said, just to quote one part:

> * * * several of the members of the subcommittee were deeply disturbed to learn that your Department has submitted proposed regulations under the 1974 amendments to the Fair Labor Standards Act that would permit payment of a subminimum wage to students holding jobs under the college work-study program.
>
> I believe the inclusion of these student employees under the subminimum wage procedures would be contrary to the intent of the Congress in enacting either the work-study provisions of the Higher Education Act, or indeed, the subminimum wage provisions of FLSA.
>
> * * * the intent of the FLSA amendments themselves, I submit, would be violated by extension of the subminimum wage to CW-SP students.
>
> The intent of those amendments was to encourage the employment of students by providing employers with a wage-cost incentive in the amount of 15 percent of the minimum wage. This 15-percent figure was agreed upon by all the parties to the debate over the 1974 Amendments and clearly represents the maximum incentive which the amendments were to provide.
>
> The college work-study program already provides employers—campus or off campus with an 80-percent incentive in the form of a direct subsidy to their wage costs—even where those costs are above the minimum wage.
>
> If the 15-percent FLSA incentive were made additive to the 80-percent CW-SP subsidy, the employer would be receiving an 83-percent break in his wage costs. That figure, I suggest, was never intended by the authors of either program.

We agree completely with the sentiments expresed by former Congressman O'Hara.

Unless the Congress wants to rename this program the "Institutional Slave Labor Program," the evidence, USSA believes, clearly points to the abusive nature of this provision, its disregard for student interests, and advantageous working in favor of the employer. Benefiting institutional concerns at the expense of the ability of the student is inequitable. Subminimum wage rates are discriminatory and alienate those who are subject to them

Our testimony provides some figures showing how the minimum wage increase has nowhere kept pace with increases of college costs.

We have two other quick recommendations in our testimony. One is about allowing institutions, after they have met fully the documented need of all work-study students, to allow such students to continue receiving work-study if the institution has excess funds. We think this would be helpful because right now students can only earn up to $200 above their documented need.

This would help alleviate this problem as well as perhaps if an institution has excess funds to allow them to give some money to more middle-income students.

Our last proposal was to provide modification of the State allotment formulas so that the allocation of funds to States would be based more on some aggregate need rather than on the mish-mash of enrollment of high school graduates and families below $3,000 virtually all of which have no relation to this program.

I will stop here and be happy to answer questions later.

[Prepared statement of Joel Packer follows:]

NOTE: NEW ADDRESS: 1220 G Street, S.E., Washington, D.C. 20003

USSA

United States
Student
Association

The Merger of the U.S. National Student Association and the National Student Lobby

STATEMENT OF

JOEL PACKER

LEGISLATIVE DIRECTOR

UNITED STATES STUDENT ASSOCIATION

BEFORE THE

HOUSE POSTSECONDARY EDUCATION SUBCOMMITTEE

ON REAUTHORIZATION OF THE
COLLEGE WORK -STUDY PROGRAM

JUNE 7, 1979

RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman and members of the Subcommittee, I would like to thank you for the opportunity to be here today. My name is Joel Packer and I am Legislative Director of the United States Student Association (USSA).The Work-Study program (CWS), under consideration here today is one of the most popular of the Federal student aid programs. Not only does CWS provide needed financial assistance to eligible students, it also allows these students to gain work experience, provides needed services to the institution, and in the case of off-campus jobs helps improve campus-community relations.

Our recommendations are relatively simple, though not necessarily non-controversial. In general USSA believes that CWS is working well, and should be expanded, with certain modifications. The main areas we see in need of improvement are: efforts to provide more academically and vocationally-relevant work experiences, allow jobs in the off-campus for-profit sector, allow students who have their need met to continue to receive CWS in certain cases, and most importantly to us, prohibit payment of sub-minimum wages.

The history of student work programs is a long one, dating all the way back to Harvard College in 1636. Since then the concept of working to help finance one's way through college has become as American as apple pie. Another major landmark in student work programs was the National Youth Administration (NYA) which existed from 1935 to 1943. About 600,000 students participated in this program which was intended to provide work education for students who needed it.

College Work-Study was enacted in 1964 as part of the Economic Opportunity Act. For about one year, CWS operated out of the Office of Economic Opportunity (OEO) and was an integral part of the "war on poverty" At that time only students from low-income families and of demonstrated need were eligible for employment. In 1965, the Higher Education Act transferred the authority for CWS to the Commissioner of Education and broadened eligibility to all students with need, not just those from low-income families.

Thus, Work-Study had changed from a tool to reduce poverty to a program to provide financial assistance to needy students. The 1972 Education Amendments took this trend another step by removing the statutory preference for students from low-income families to simply students with the greatest need.

Currently Work-Study is funded at the level of $550 million for FY 79. The House Appropriations Committee this week recommended maintainence of the level of funding for FY 80. This provides 902,000 jobs at an average of $610 per student. For many students Work-Study is the only Federal aid they receive. Over a fourth of CWS recipients were awarded either CWS alone or CWS plus just NDSL. For 1977-78 first time full-time freshpersons, 13 percent received only CWS. Over one-half of these freshperson CWS recipients were from families with incomes less than $12,500, while 18.5 percent came from families with incomes above $20,000.

EXPANSION OF WORK-STUDY

USSA has recommended to you, as part of our legislative recommendations submitted on Feb. 15, that CWS be authorized through FY 85 and that the authorized funding levels continue to modestly increase from the $720 million currently authorized for FY 82 to $900 million in FY 85. As mentioned earlier Work-Study is a popular, efficently run program. Any program that can be commented on favorably by both AFL-CIO and the U.S. Chamber of Commerce, as occurred in 1974 before the Special Subcommittee on Education of the House, must be doing something right.

ENCOURAGEMENT OF INCREASED NUMBERS OF ACADEMICALLY AND VOCATIONALLY RELEVANT JOBS

Clearly, one of the purposes of Work-Study is to provide meaningful opportunities for students, not just financial assistance. According to the 1977-78 Student Financial Aid Handbook published by the Office of Education, "the program [CWS] is also intended to broaden the range of worthwhile job opportunities for qualified students." In discussing on-campus employment the manual states,

> "While there are often a number of essential jobs in the clerical and maintainence areas, an effort should be made to develop a variety of positions suitable to a wide range of student skills and interests. Placement of students in jobs related to their academic area of study is certainly worthwhile in terms of job satisfaction and consequent productivity."

The manual goes on to talk about off-campus employment,

> "Off-campus CWS is a benefit to the student, the institution and the employer. It affords students a valuable experience which helps in making better career choices. Often it helps to integrate one's educational program and career objectives through clinical job experiences. The off-campus employer benefits by being able to expand its activities with minimal costs. Institutions are encouraged to develop off-campus employment opportunities for their students."

A study done for the Office of Education by the Bureau of Applied Social Research (Freidman, Natalie, et al., Columbia University, 1973), lends support to these statements. Twice as many students who worked on-campus rather than off-campus saw zero advantages to their jobs, while 65 percent of the off-campus compared to 47 percent of the on-campus students cited four or more advantages to their work experiences. Sixty-seven percent of off-campus students felt they aquired useful career skills, compared to only 41 percent of those working for the institution. Most interesting was the fact that 80 percent of the employers believed that the students had developed positive work attitudes, when working off-campus. The figure for the on-campus group was only 25 percent.

The summary of the report concludes by saying, "... [CWS] can do more than provide dollars, more than create leaf-rakers or clerks for institutions of higher education, [CWS] can serve as a means of education for life." Unfortunately, in most cases the jobs are of the menial nature. This 1973 report found only 15 percent of CWS students employed as community aides, teaching or research assistant, or government or judicial aides.

While these figures are a bit dated they are probably still fairly accurate. USSA proposes the following statutory changes to encourage institutions to provide more meaningful work-learning experiences. I note that the Coalition for Alternatives in Postsecondary Education (CAPE) has made very similar proposals. The exact details of the USSA suggestions are included in the compilation of recommendations the Subcommittee has published.

1) Amend the purposes section, Sec. 441, to state that emphasis should be given to CWS employment that "will provide work-learning opportunities supportive of the students' educational and vocational programs and goals and which will serve the public interest."

Amend the terms of the agreement that an institution enters into with the Office of Education to participate in Work-Study to state that "institutions will make every effort to provide a work-learning opportunity consistent with the educational or vocational programs and goals of the student."

Both these changes clarify the purpose of CWS. They do not mandate that all jobs must be of this work-experience nature. They simply highlight this aspect as an important component of the program.

2) Amend the Job Location and Development Program section, Sec. 447, to allow institutions, which agree to provide at least one-half of their jobs under this provision as educationally or vocationally relevant work experiences, to spend 20 percent of their CWS allotment or $30,000 whichever is less, for job location services. This recognizes that there are legitimate expenses involved in off-campus placements and that those which entail matching jobs to students interest and aspirations will be even more costly to establish.

3) In Section 445, sources of matching funds, add language which would have the Commissioner "encourage the use of work-

study funds in conjunction with other work-training and work-education activities, particularly where such other activities are supported in whole or in part with Federal funds."

This provision will work to develop linkages and maximum coordination between Work-Study and such programs as Cooperative Education (Title VIII).

ALLOWING LIMITED NUMBERS OF WORK-STUDY JOBS IN THE PRIVATE SECTOR

Currently, CWS may only be used for employment at the institution, except in the case of proprietary schools, and at off-campus, not-for-profit employers. Our proposal would allow an institution to utilize up to 20 percent of its CWS allotment to establish jobs in the for-profit sector. A limit of 50 percent of Federal compensation is established, as opposed to the 80 percent share for jobs in non-profit institutions. While USSA does not wish to see profit making enterprises reap great financial benefits by a Federal subsidy of certain employees, we believe that this provision will greatly benefit students. Valuable work-learning opportunities exist in the for-profit private sector that students are unable to take advantage of. An example might be a journalism student reaping great benefits from working at a newspaper or a magazine. Another rationale for this proposal is that it opens up another source of placements. Since some institutions may have trouble filling the need for work-study as appropriations rise, expanding into the private sector will ensure that students in need of funds from CWS are not denied them due to a lack of work opportunities.

MANDATE PAYMENT OF THE FEDERAL MINIMUM WAGE FOR ALL CWS EMPLOYEES

This is a top priority of USSA. It has also been endorsed by COPUS, the students at both the first and second OE-sponsored Student Commissioner conferences, the American Federation of Teachers (AFT) and the AFL-CIO. An example of the effects of paying subminimum wages to students, thereby forcing them to work longer hours can be seen in the following quote from a student who testified at hearings held by the College Scholarship Service's Student Committee,

> "There was the job, the long hours, the effort, the lack of free time, it all said that every waking hour was filled: study, class, work, sleep. But the wages were a joke. The man next to me at the library made just over twice what I did, and he didn't need it. Each hour I worked I went down about 75 cents, compared to what I needed just to stay in school. But I had to keep it up or I would be down $2.75 and lose the grant as well."

The current situation with respect to subminimum wages is that public institutions are completely exempt from paying the Federal minimum wage due to the decision of the Supreme Court in National League of Cities v. Usery (June 24, 1976). The Court held that it was unconstitutional to extend coverage of the Fair Labor Standards Act (FLSA) to employees of States and local governments because the Federal regulation of States as States violated State sovereignty. However, these institutions are still subject to payment of the Federal minimum wage for CWS employees since the requirement applies to the public institution of higher education as a recipient of a Federal grant, and not to the State per se.

The Commissioner may approve payment of subminimum wages at a level of 85 percent the current minimum wage, "if such a lower rate is consistent with and promotive of the purposes of the College Work-Study program." (See attached sample letter from OE granting request of a waiver of minimum wage requirements.)

Private colleges and universities are covered by Federal minimum wage laws, However under 29 CFR 519 Subpart B the Secretary of Labor is authorized to issue certificates to these institutions of higher education to pay full-time students a wage of 85 percent of the current Federal minimum. OE accepts these certificates as authorizing the institution to also pay CWS employees subminimum wages, even though the regulations governing the issuance of the DOL certificates are much more lenient than those governing the OE waiver. In reality this difference doesn't matter because it appears that both the Office of Education and the Department of Labor grant these waivers without requiring any justifications from the institutions. Attached to my testimony is detailed correspondence from the Oregon Student Lobby to the Office of Education and related documents showing how OE has completely shirked its responsibilities under its own regulations. I have also provided the Committee members with a report that USSA issued last year on the subject of subminimums.

USSA is both philosophically and pragmatically opposed to payment of sub-minimum wages. Since students are granted specific CWS awards payment of subminimums simply forces the student to work longer hours to earn his/her award. Thus the raising of wages will not result in higher earnings to students, it will mean they can earn their aid in a slightly shorter period of time, or by working fewer hours per week. This allows more time for studying.

This point is clearly stated in the OE waiver letter,

> "As you know, imposing a sub-minimum wage simply affects the total hours worked. Once a student's need is determined to be met fully or in part by CWS compensation, the hourly rate merely governs the number of hours of work necessary to earn that compensation. It does not provide more of the allocation to go to students."

So the benefits of subminimums to students? Absolutley none. They are completely inconsistent with the intent of the program since they create an adverse effect on the student's studying. In a letter from then Chairman of the House Special Subcommittee on Education James O'Hara to then Sec. of Labor Brennan on May 14, 1974, Rep O'Hara said,

> " ... several of [the members of the Subcommittee] were deeply disturbed to learn that your Department has submitted proposed regulations under the the 1974 amendments [to the Fair Labor Standards Act]

> that would permit payment of a subminimum wage to students holding jobs under the college work-study program. I believe the inclusion of these student employees under the subminimum wage procedures would be contrary to the intent of the Congress in enacting either the Work-Study provisions of the Higher Education Act, or indeed, the subminimum wage provisions of FLSA.
>
> "... the intent of the FLSA Amendments themselves, I submit, would be violated by extension of the subminimum wage to CW-SP students. The intent of those amendments was to encourage the employment of students by providing employers with a wage cost incentive in the amount of 15% of the minimum wage. This 15% figure was agreed upon by all the parties to the debate over the 1974 Amendments and clearly represents the maximum incentive which the amendments were to provide.
>
> "The College Work-Study Program already provides employers - campus or off campus with an 80% incentive in the form of a direct subsidy to their wage costs - even where those costs are above the minimum wage. If the 15% FLSA incentive were made additive to the 80% CW-SP subsidy, the employer would be receiving an 83% "break" in his wage costs. That figure, I suggest, was never intended by the authors of either program."

Although the intent of subminimum wages may be in part to defray costs for institutions of higher education, this has nothing whatsoever to do with the intent of the program. Unless the Congress wants to rename this program the Institutional Slave Labor Program, the evidence, USSA believes, clearly points to the abusive nature of this provision, its disregard for student interests, and advantageous working in favor of the employer. Benefiting institutional concerns at the expense of the ability of the student is inequitable. Subminimum wage rates are discriminatory and alienate those who are subject to them.

In 1956 the minimum wage rate was $1.00/hr. and the average tuition and fees at a public four-year college was $142, and at a private college $495. By 1976 the minimum wage had jumped to $2.30/hr., an increase of 130 percent. However, tuition and fees were up 307 percent at public colleges ($578) and 353 percent at private colleges ($2,240). Figures like these show how subminimum wages are just exploitation of students, since they are forced into earning a smaller share of their costs.

USSA once again urges you to approve an amendment that would abolish the payment of subminimum wages under CWS.

USE OF EXCESS WORK-STUDY FUNDS

USSA, and A.C.E., have recommended allowing institutions who have met the full documented need of students with CWS, but still have excess funds available to utilize such funds to either continue providing CWS employment to students after they have earned their awards, or to provide employment to students without "documented need". This would not take any money away from needy students since the institution could do this only after all documented need has been filled.

MODIFICATION OF THE STATE ALLOTMENT FORMULAS

As we testified at the hearing on grants USSA believes that the statutory State allotment formulas for the campus-based programs should be changed so that they distribute funds based on the aggregate unmet need in the State, rather than the current factors of enrollment, and in the case of Work-Study, high school graduates and poverty-level families.

In closing Mr. Chairman, I urge you and this Subcommittee to continue the enthusiastic support you have shown in the past for this program, and to enact the modifications I have proposed today. I thank you again for the opportunity to be here, and I would be happy to answer any questions.

EXAMPLE OF WAIVER LETTER

Mr. Larry Smith
Financial Aid Director
Jacksonville State University
Jacksonville, Alabama 36265

Dear Mr. Smith:

Please excuse the delay in responding to your request concerning approval to pay less than the Federal minimum hourly wage rate to College Work-Study students from July 1, 1978 - June 30, 1979.

We are hereby granting your institution a waiver to pay less than $2.65 per hour to CWS students beginning July 1, 1978. This waiver is predicated on the assumption that your institution is able to demonstrate that such a lower rate is consistent with and promotive of the purposes of the College Work-Study Program. This is to remind you that the sub-minimum hourly rate set by your institution must compensate CWS students on the basis of skills and abilities required to perform the job, the prevailing rate locally for a comparable part-time job, and any applicable Federal, state or local legislation requiring a particular rate.

As you know, imposing a sub-minimum wage simply affects the total hours worked. Once a student's need is determined to be met fully or in part by CWS compensation, the hourly rate merely governs the number of hours of work necessary to earn that compensation. It does not provide more of the allocation to go to more students.

If you should have any questions regarding this waiver of the minimum wage requirement, please contact Janet Burkhart, Acting Chief, Certification* Section, Institution and Lender Certification Branch at (202) 447-9031.

turn ov

Sincerely yours,

Richard A. Hastings
Acting Director, Division of
Certification and Program Review
Bureau of Student Financial Assistance

[illegible]

[illegible]:tah:6/13/78

April 11, 1978

Mr. Hubert Shaw
Division of Policy Development
Bureau of Student Financial Assistance
U.S. Office of Education
Washington, D.C. 20202

Dear Mr. Shaw:

It is our understanding that your office is contemplating changing the College Work Study Program regulations to require institutions to pay CWSP student employes $2.65 per hour effective July 1, 1978. Inasmuch as public institutions in higher education are no longer subject to the minimum wage provisions of the Fair Labor Standards Act and many of the Oregon institutions will be unable to meet that standard voluntarily, authorization is requested on behalf of the following public institutions to pay students employed under the College Work Study Program an hourly rate as much as 15% below the minimum rate provided in the Fair Standards Act:

Eastern Oregon State College, LaGrande
Oregon College of Education, Monmouth
Oregon Institute of Technology, Klamath Falls
Oregon State University, Corvallis
Portland State University, Portland
Southern Oregon State College, Ashland
University of Oregon, Eugene
University of Oregon Health Sciences Center, Portland

If you prefer, institutional authorizations can be sent to this office for further distribution. If you require further information from us, please let us know.

Sincerely

W.T. Lemman, Jr.
Vice Chancellor for Personnel
Administration

WTL:ak
c.c. Vice Presidents & Deans of Administration
Personnel Officers

PS: Since the U.S. Office of Education offered to let us submit one application rather than eight, we have taken the liberty of doing so. Should you not wish to exercise the authorization given, of course you need not do so.

8 June 1978

Mr. Hubert Shaw
Division of Policy Development
Bureau of Student Financial Assistance
United States Office of Education
Washington, D.C. 20202

Mr. Shaw,

In our letter of 20 April 1978, the Oregon Student Lobby urged Commissioner of Education Boyer to deny the request submitted by the Oregon State Board of Higher Education to be exempted from the July 1 increase in the College Work Study minimum wage, and to be permitted to pay as little as 85% of the new minimum. Our letter explained the history of this issue and recommended denial for two reasons:

a) The Oregon State System of Higher Education (OSSHE) cannot substantiate claims of financial exigency sufficiently to justify sub-minimum wages for needy student workers.

b) Student wages paid by the OSSHE are lower than wages paid for similar work in both the public and private sector, and therefore do not satisfy guidelines published by the Office of Education in the Student Financial Aid 1977-78 Handbook.

This letter provides a supplement to the second argument. We have surveyed all of Oregon's thirteen community colleges to determine their current and anticipated student employee wage minima, and when possible, contrasted it with similar data from the State System of Higher Education. The results (contained in the attached tables) clearly corroborate our earlier findings: The State System's student workers are generally more poorly compensated than their counterparts in both private and public employment.

The following highlights from the data will be of interest:

- During November 1977, 49% of the student employees of the State System of Higher Education were paid less than $2.65 per hour, while fewer than 7% of the community college students employed during May of 1978 were paid less than $2.65 per hour.

-By weighting the institutions' minimum wages by the number of their student employees and then averaging the weightings, we derived the following comparison:

Weighted Average Minimum Wages

OSSHE	$2.45
Oregon Community Colleges	2.72

-In comparing the average minimum wages for four kinds of work which employ a large proportion of all OSSHE student employees, we find the average OSSHE hourly wage minimum is lower by 9-13% than the community colleges' in each case.

-With two exceptions, Oregon's community colleges instituted $2.65/hour as their minimum wage effective January 1, 1978. At least four of the thirteen colleges had instituted a $2.65 (or higher) minimum in July of 1977 and four colleges already pay a minimum of $2.90/hour. This contrasts with the OSSHE, in which not one institution established a minimum of $2.65 prior to this month.

The tables contain this and much other information useful to you in making a determination regarding the OSSHE request for an exemption under S175.19 (2) of the College Work Study Program regulations.

Incidentally, you will be interested to learn that one of the small institutions in the OSSHE with severe budget problems, Southern Oregon State College, made the decision this week to increase its minimum wage to $2.65/hour on 13 June, regardless of the Commissioner's decision on the exemption request. This supports our contention that the OSSHE's "financial exigencies" (the rationale for their request) are in fact a matter of institutional priorities which the Commissioner should scrutinize before considering granting the exemption. It also suggests the inadvisability of granting a blanket exemption since it would penalize institutions like SOSC for having made the correct and difficult decision, while allowing larger institutions with more flexibility in their budget to avoid the same hard choices.

I hope this information is of use to you.

Robert Liberty

Robert Liberty,
Legislative Coordinator

cc Ernest Boyer,
Commissioner of Education

PRESS RELEASE

23 JUNE 1978

For Immediate Release

"STUDENT LOBBY CHARGES U.S. OFFICE OF EDUCATION 'INCOMPETENT'"

THE ORGANIZATION REPRESENTING THE STUDENTS AT OREGON'S PUBLIC COLLEGES AND UNIVERSITIES HAS ATTACKED THE U.S. OFFICE OF EDUCATION'S HANDLING OF A DISPUTE OVER STUDENT WAGES. THE OREGON STUDENT LOBBY BLASTED THE OFFICE OF EDUCATION FOR DISPLAYING "THE WORST SORT OF GUTLESS BUREAUCRATIC TIMIDITY" AND "SACRIFICING THE INTERESTS OF NEEDY STUDENT WORKERS OUT OF SHEER INCOMPETENCE" ACCORDING TO ROBERT LIBERTY, THE LOBBY'S LEGISLATIVE COORDINATOR.

AT ISSUE IN THE CONTROVERSY ARE THE WAGES PAID TO STUDENTS EMPLOYED THROUGH THE FEDERAL COLLEGE WORK-STUDY PROGRAM, (CWSP). THE FEDERAL GOVERNMENT PAYS 80% OF THE WAGES OF THE STUDENT EMPLOYEES, WHO ARE ALLOCATED A SUM OF MONEY BASED ON THEIR FINANCIAL NEED. THE MONEY IS

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EARNED THROUGH PART-TIME EMPLOYMENT OF THE STUDENTS BY THE COLLEGES AND UNIVERSITIES, WHICH PAY 20% OF THE COST AND FIX WAGES. ALTHOUGH PUBLIC INSTITUTIONS OF HIGHER EDUCATION ARE NOT BOUND BY THE FEDERAL MINIMUM WAGE, REGULATIONS DO ESTABLISH A MINIMUM CWSP WAGE, CURRENTLY $2.30 PER HOUR. THE MINIMUM CWSP WAGE IS SCHEDULED TO INCREASE TO $2.65 PER HOUR BEGINNING JULY 1. A PROVISION IN THE REGULATION PERMITS INSTITUTIONS OF HIGHER EDUCATION TO PAY AS MUCH AS 15% BELOW THE MINIMUM IF THEY ARE GRANTED A WAIVER BY THE OFFICE OF EDUCATION.

IN APRIL THE OREGON STUDENT LOBBY (OSL) URGED THE STATE BOARD OF HIGHER EDUCATION TO PAY ALL STUDENT EMPLOYEES AT LEAST THE CWSP MINIMUM. THE STATE BOARD REFUSED ON THE GROUNDS THIS WOULD INFRINGE UPON THE INSTITUTIONS' FREEDOM TO SET STUDENT WAGES AND BECAUSE IT WOULD COST TOO MUCH. SIMULTANEOUSLY, THE BOARD AUTHORIZED ITS STAFF TO SEEK A WAIVER ON BEHALF OF THE COLLEGES AND UNIVERSITIES WHICH WOULD PERMIT THEM TO PAY LESS THAN THE CWSP MINIMUM DURING THE 1978-79 FISCAL YEAR. AT THAT TIME THE LOBBY VOWED TO FIGHT THE WAIVER REQUEST ALL THE WAY TO WASHINGTON.

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ON MONDAY THE OSL RECEIVED A COPY OF A LETTER FROM RICHARD HASTINGS OF THE OFFICE OF EDUCATION SENT TO BILL LEMMAN, VICE CHANCELLOR FOR PERSONNEL ADMINISTRATION OF THE OREGON STATE SYSTEM OF HIGHER EDUCATION, NOTIFYING HIM THAT THE WAIVER HAD BEEN GRANTED. "ACTUALLY NEITHER BILL NOR I COULD TELL WHAT THE LETTER MEANT BECAUSE IT WAS SO UNBELIEVABLY MEALY-MOUTHED," SAYS LIBERTY. "I CALLED WASHINGTON TO FIND OUT WHAT IT MEANT AND DISCOVERED THEY GRANTED THE WAIVER DESPITE OVER TWENTY PAGES OF EVIDENCE FROM US THAT IT DID NOT MEET THEIR OWN CRITERIA. THE STATE BOARD OF HIGHER EDUCATION'S REQUEST FOR A WAIVER DID NOT CONTAIN ONE SINGLE SCRAP OF JUSTIFICATION! THE BUREAUCRATS GRANTED THE WAIVER SIMPLY TO AVOID THE WORK OF REVIEWING EACH REQUEST INDIVIDUALLY. THE WHOLE THING MAKES ME SICK. NO WONDER PEOPLE REVOLT AGAINST TAXES TO SUPPORT THAT KIND OF BUREAUCRACY."

THE OSL'S EVIDENCE IS CONTAINED IN TWO LETTERS AND FIVE TABLES OF WAGE INFORMATION. THE TABLES SHOW THAT THE STARTING WAGES FOR STUDENT EMPLOYEES AT OREGON'S SEVEN PUBLIC COLLEGES AND UNIVERSITIES ARE LOWER

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THAN THOSE PAID TO PART-TIME STATE EMPLOYEES, EMPLOYEES OF PRIVATE BUSINESSES AND STUDENTS EMPLOYED BY OREGON'S COMMUNITY COLLEGES, FOR COMPARABLE WORK. MUCH OF THE INFORMATION IS BASED ON A WAGE AND SALARY SURVEY PREPARED BY THE STATE'S EXECUTIVE DEPARTMENT LAST FALL. ONE OF THE CRITERIA FOR THE GRANT OF WAIVERS IS THAT "THE SUB-MINIMUM HOURLY RATE MUST COMPENSATE STUDENTS ON THE BASIS OF ....THE PREVAILING RATE LOCALLY FOR A COMPARABLE PART-TIME JOB..."

THE LOBBY HAS ALSO GAINED THE SUPPORT OF THE OREGON STATE SCHOLARSHIP COMMISSION AND THE OREGON AFL-CIO FOR THEIR REQUEST THAT STUDENTS BE PAID AT LEAST THE MINIMUM WAGE. THE SCHOLARSHIP COMMISSION HAS THE STATUTORY AUTHORITY TO REVIEW ALL PUBLIC AND PRIVATE FINANCIAL AID PROGRAMS IN THE STATE.

LES MORTON, STUDENT BODY PRESIDENT OF PORTLAND STATE UNIVERSITY AND ACTING CHAIRPERSON OF THE OSL BOARD OF DIRECTORS, PROMISED THE OSL WOULD MAKE AN ISSUE OUT OF THE OFFICE OF EDUCATION'S WAIVER POLICY. "WE'RE NOT GOING TO LET THIS SLIDE," SAID MORTON. "WE HAVE ALREADY

-more-

BROUGHT THIS TO THE ATTENTION OF THE STAFFS OF OUR CONGRESSIONAL DELEGATION AND THE NATIONAL STUDENT LOBBY. THE O.E. (OFFICE OF EDUCATION) INTENDS TO GRANT MORE THAN 80 WAIVERS WITHOUT ANY JUSTIFICATION AT ALL AND THEY ARE NOT GOING TO GET AWAY WITH IT."

RAMON HERRERA, UNIVERSITY OF OREGON STUDENT BODY PRESIDENT AND ANOTHER OSL BOARD MEMBER, ECHOES MORTON: "THESE INSTITUTIONS ARE BEING ALLOWED TO SAVE MONEY BY DEPRESSING THE WAGES OF FINANCIALLY NEEDY STUDENTS BECAUSE THE O.E. IS TOO LAZY AND WEAK TO PUT THEIR FOOT DOWN." "THEY ARE HANDING OUT WAIVERS BEHIND THE STUDENTS' BACKS, HOPING TO AVOID CONTROVERSY, BUT IT'S NOT GOING TO WORK."

-end-

attachments

CONTACT: Robert Liberty (503) 378-4966 Oregon Student Lobby
Dan Garner " "

OREGON
STUDENT
LOBBY

598 Cottage St. N.E.
Salem, OR 97301
Phone (503) 378-4966

12 July 1978

Ernest Boyer,
U.S. Commissioner of Education
400 Maryland Avenue
Washington, D.C. 20202

Commissioner Boyer,

Under 29 CFR 519 Subpart B the Secretary of Labor is authorized to issue full-time student certificates to institutions of higher education. These certificates permit colleges and universities to pay their student employees as much as 15% below the Federal minimum wage. Under existing regulations the full-time student (FTS) certificates are being used by private institutions of higher education to govern the wages of students employed through the College Work Study (CWS) Program. Your office administers CWS and disburses the funds to institutions which amount to 80% of the students' wages. As you know, the CWS Program has its own minimum wage regulations and its own criteria for waivers authorizing wages below that minimum. Since the FTS certificates issued by the Department of Labor's regional offices have significantly more lenient conditions than those for the CWS waivers, the overlapping of authority is in effect subverting the purpose of the Work Study Program at private colleges and universities.

The Code of Federal Regulations states:

> S. 519.15 Conditions governing the issuance of full-time student certificates.
>
> Certificates authorizing the employment of full-time students at subminimum wages shall not be issued unless the following conditions are met:
>
> (a) Full-time students are available for employment at subminimum rates; the granting of a certificate is necessary in order to prevent curtailment of opportunities for employment.
>
> (b) The employment of full-time students will not create a substantial probability of reducing the full-time employment opportunities for persons other than those employed under such certificates.
>
> etc.

The Oregon Student Lobby represents the Student Associations of Eastern Oregon State College, Oregon College of Education, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon State College, University of Oregon

> (The remaining paragraphs concern abnormal labor conditions, reliability of data, previous labor record of the institution, the 85% rule, kinds of employers and a prohibition of wage reductions.)

The criteria concerning CWS wages are outlined in the Office of Education Student Financial Aid; 1977-78 Handbook:

I B. Program Purpose

The primary purpose of the College Work-Study Program (CWS) is to stimulate and promote the part-time employment of students. The program is designed for those students who have great financial need and who are in need of the earnings to pursue a course of study at an institution of post secondary education......

page 7-1

IV E. Wage Rates

1. Establishing Wage Rates

Wage rates should be a function of the duties and responsibilities of the particular job. The duties and responsibilities determine the skills and abilities needed to perform the job. Those skills and abilities have a market value, which may, however, vary from one geographical area to another.

The criteria to be used in establishing the rate at which any particular student is paid are: (a) the particular set of skills and abilities needed to perform the job; (b) the prevailing rate at which persons with those skills and abilities are paid in the local area for doing jobs of a particular kind; and (c) any applicable Federal, state, or local legislation which would require a particular wage rate.....

page 7-17

3. Minimum Wage Rate

Regulations require that the minimum rate for a student employed on campus under CWS be $2.30 an hour or such higher minimum wage as may be required under any applicable Federal, state or local legislation. It is important to note that at the time this handbook is being written, the U.S. Congress is considering an increase in this minimum rate. [The new rate is $2.65 an hour, effective July 1, 1978.]

> Public institutions may request a rate of compensation lower than the minimum if exceptional circumstances warrant such a lower rate and its approval is not precluded by law and is consistent with and promotive of the purposes of CWS. To obtain such approval, a public institution must submit a separate application to the Commissioner of Education.
>
> Private institutions may request a lower rate by filing an application with the Secretary of Labor, Wage and Hour Division, U.S. Department of Labor. The Secretary may establish a sub-minimum rate under provisions of the Fair Labor Standards Act for full-time students at a private institution. Such sub-minimum wage rate shall be the minimum wage rate under CWS for those students.

The preconditions of the CWS waiver to public institutions may be summarized as follows:

1) The subminimum wage is commensurate with the skills of the student employee.

2) The subminimum wage is not in conflict with any laws requiring a higher wage.

3) The subminimum wage is comparable to wages paid for similar part-time work in the area.

4) The subminimum wage is warranted by exceptional circumstances.

5) The subminimum wage does not discourage but actually promotes the education of financially needy students.

The last criterion is perhaps the most important to satisfy and difficult to interpret. Subminimum wages might encourage institutions to employ more students through the CWS Program (although it might also encourage the students to seek employment off campus.) However, it would also require them to work more hours to earn their allocation than if it were at the higher rate, hours which could be used for study. Is this consistent with and promotive of the act? Since the purpose of the act is employment of students in order to assist them in financing their education and not to provide inexpensive labor to colleges and universities, I submit that absent other justification, longer hours for lower wages is not consistent with, or promotive of, the purposes of the College Work Study Program.

As evidence I cite the summary analysis of a just-completed survey of financial aid recipients conducted by the Oregon Educational Coordinating Commission. Respondents added written comments regarding the College Work-Study Program, of which the following are representative:

> Work Study allocations are made in large amounts to students who cannot possibly earn them in the allotted time and students who need the funds and have the time to work do not have the money. Also, on the subject of minimum wage, the administration states they would have to cut back work study allocations if the minimum wage was paid to work study students.
>
> -Student at Southern Oregon State College

> Because the university only paid $2.30 an hour there was no way to earn the $1,500 awarded me. Nowhere did I hear of labor rights.
>
> -Student at Oregon State University

The student at Southern Oregon State College refers to the only possible situation which arguably could be said to promote the purposes of the CWS Program through subminimum wages. It is the same condition as is required under 29 CFR519.15 (a) ("the granting of a certificate is necessary in order to prevent curtailment of opportunities for employment,") for the issuance of a CWS certificate. Yet the logic and the policies of the CWS Program rule out a reduction in the total allocation to each student, or in the number of positions open to CWS employees.

In his letter dated June 15 (to the Vice Chancellor for Personnel Administration for the Oregon State System of Higher Education) Richard Hastings, Acting Director of the Division of Certification and Program Review in the Office of Education's Bureau of Student Financial Assistance stated:

> As you know, imposing a subminimum wage simply affects the total hours worked. Once a student's need is determined to be met fully or in part by CWS compensation, the hourly rate merely governs the number of hours of work necessary to earn that compensation. It does not provide more of the allocation to go to more students.

In other words, the total amount of money available to the institution for student labor under CWS is fixed, thus changes in the hourly wage only affect the hours of work but not the number of CWS employees or what they will earn in total. This condition is in direct contradiction with condition (a) above of the regulations for the Fair Labor Standards Act. The labor demands of the institution are strictly irrelevant, at least by the terms of the CWS Program.

It is possible the reductions in the employment opportunities for students excluded under CWS could be carried out among the non-CWS student employees. However, if that happens the institution is reducing the scope of its own activities and must then choose whether to hire more expensive career staff to replace the student employees or to allow the work to go undone. Clearly the former makes no sense if the original reason for terminating student employees was lack of funds. If the latter choice were adopted then there would be no point in paying fewer students a higher wage for the same number of hours rather than paying the same number of students the higher wage for fewer hours. The aggregate labor completed and the aggregate earnings of each student would be unaffected. It must be emphasized that the labor demands of the institution are strictly irrelevant under CWS or the Fair Labor Standards Act.

This leads us to the question of "exceptional circumstances." If an institution decided it must have the same amount of labor performed even at higher wages then it might be forced to curtail other programs in order to free up the necessary funds. This is always unpleasant but it is the kind of decision about priorities that goes on all the time, especially during the current era of inflation and budget retrenchment. Unless we are willing to admit that a large proportion of private and public institutions of higher education are now facing exceptional circumstances simultaneously, this kind of situation does not qualify. The dictionary offers "rare" as a synonym for "exceptional," and it is a definition suited to the purposes of both acts.

The other significant difference between the conditions for a FTS certificate for a private institution and a CWS waiver for a public institution is the second's requirement the students' wages be comparable to those for similar part-time work in the area. The Oregon Student Lobby has developed ample documentation the subminimum wages now paid to students in Oregon are lower than for comparable part-time work in the public and private sectors. Private colleges which have the FTS certificate are never required to satisfy this condition.

This blending of administrative authority is probably the result of the Supreme Court's decision in National League of Cities v. Usery (1976), coupled with the Office of Education's timid approach to administration of its own financial aid programs. While it might have been less work than assuming responsibility for all CWS recipients, it was philosophically unsound.

The two acts and the associated regulations are at cross-purposes. The provision in the Fair Labor Standards Act exists to assist institutions of higher education while the Economic Opportunity Act of 1964 was intended to help financially disadvantaged students. Private colleges and universities are using one act to violate the spirit and objective, if not the regulations, of the other. They have a vested interest in keeping the wages of their student employees low and the means for doing so.

The remedy is obvious. The Office of Education should issue new regulations assuming authority for the wages of all CWS recipients and the Department of Labor should disclaim any authority over them. The provisions of Section 519 B should only apply to non-CWS student employees at private colleges and universities.

Unfortunately, a change in the Code of Federal Regulations is very time consuming, time during which many FTS certificates will be issued. In the interim, it might be appropriate for your regional offices to inform all applicants for and recipients of, FTS certificates of the discrepancy between the two sets of criteria and encourage them to voluntarily adhere to the stricter conditions established by the Office of Education.

I look forward to your reply. The wages of hundreds of thousands of needy students will be unjustly depressed without prompt attention to this problem.

A letter similar to this one has been sent to Secretary of Labor Marshall.

Thank you for your time and consideration.

Sincerely,

Robert Liberty
Legislative Coordinator

Enc.
cc: Secretary Joseph Califano, Department of Health, Education, Welfare
Representative James Weaver
Representative Robert Duncan
Jeffrey Lee, Director, Oregon State Scholarship Commission
David Patterson, NSA/NSL
Larry Lewis, Student Body President, Lewis & Clark College

Target Report

Sub
Minimum
Wage

No.12

Over 1300 institutions paid sub-minimum wages to over 470,000 students in 1976. The numbers are rising. Does your campus pay sub-minimum wage? Is your campus in compliance with the law and regulations? This report will help you fight sub-minimum wage and its illegal use on your campus.

NSA-NSL

Published by NSA-NSL Coalition © 1978 By David Patterson
& Bruce Horowitz

Sub-minimum wages have existed under the Fair Labor Standards Act for the last 18 years. For the first 13 years retail establishments were granted permission to employ full time students working part time at a wage less than the minimum. In 1973 amendments to the Fair Labor Standards Act included provisions allowing institutions of higher education to pay full time students at less than the minimum wage. Sub-minimum wage is limited to 85% of minimum wage. Minimum wage is currently $2.65 an hour. It will rise to $2.90 beginning January 1, 1979, to $3.10 by January 1, 1980 and to $3.35 by January 1, 1981.

According to Department of Labor records over 624,037 students were paid sub-minimum wage in Fiscal Year ending September 1976. Over 1,300 institutions of higher education payed sub-minimum wages to 481,195 of the 624,037 students.

Until June 24, 1976 all public and private institutions of higher education were required to petition for a certificate from the Department of Labor in order to pay full time students less than minimum wage. On that date the Supreme Court in the case of National League of Cities vs Usery held that the minimum wage and overtime provisions of the Fair Labor Standards Act do not apply to (state or local) public institutions. As a result special circumstances apply to College Work Study jobs. Previously institutions were required to apply separately to the Department of Labor for permission to pay sub-minimum wage and to the Office of Education in order to pay sub-minimum wage to College Work Study employees. Now private institutions apply only to the Department of Labor and automatically receive a waiver from the Office of Education. Public institutions apply to the Office of Education for permission to pay less than minimum wage to College Work Study employees only.

Who benefits from sub-minimum wages? Not the student , but the powerful business-corporate lobbies who wish to advance their retail interests and institutions of higher education. The McDonalds Corporation devoted much time and money to see the sub-minimum provision adopted. The McDonalds Corporation employs large numbers of student-workers nationwide (exact figures were not available from McDonalds corporate headquarters). A 15% wage subsidy would make a significant cut in their payroll. Institutions also benefit. As can be seen from the Department of Labor figures institutions employ over 77% of all of the full time students who work for sub-minimum wages. The Department of Labor estimates that every institution of higher education that pays sub-minimum wages employs an average of 281 students at this rate. Ability to pay wages less than minimum to full time students constitutes a major incentive to institutions to replace regular workers with students at less than the prevailing wage rate.

Although 15% may not seem such a significant loss of income to have a detrimental effect on students ability to continue with their education, it is often the difference between staying in school and being forced to drop-out. Because of the student sub-minimum wage, full time students working working part-time can earn only $35 to $45 a week. In these days of $15 text books, high food and living costs, the problem of paying for one's education becomes insurmountable.

The student sub-minimum wage rate comes at a time when students are faced with greater costs than ever before. While Federal funding for financial aid increases, inflation has reduced the real value to these student assistance programs. If Congress continues to allow colleges and retail organizations to use sub-minimum wage rates to cut their institutional expenses, it will come out of the pockets of the very students who support the institution, and for whom the school supposedly exists.

Are you - or students at your institution - being paid the sub-minimum wage by the college or local businesses? Here are steps that you can take to ensure that, at the very least, sub-minimum wage regulations are followed, and students are treated fairly under the law. At the best, you may eliminate student sub-minimum wages in your area entirely.

1. MAKE SURE THAT THE LETTER OF THE LAW IS FOLLOWED.
2. DEMAND THAT THE REQUIREMENTS FOR ISSUANCE OF A SUB-MINIMUM WAGE WAIVER UNDER COLLEGE WORK STUDY ARE MET BY BOTH PRIVATE AND PUBLIC INSTITUTIONS.
3. DEMAND COLLEGE EMPLOYMENT OFFICES INVESTIGATE JOBS LISTED WHICH PAY THE SUB-MINIMUM WAGE.
4. FILE A COMPLAINT TO THE REGIONAL WAGE AND HOUR DIVISION OFFICES OF THE DEPARTMENT OF LABOR.
5. ORGANIZE BOYCOTT CAMPAIGNS.
6. WRITE NEWS ARTICLES ON THE SUB-MINIMUM WAGE.
7. OBTAIN LOCAL UNION SUPPORT.

1. MAKE SURE THAT THE LETTER OF THE LAW IS FOLLOWED.

At the present time, there has not been strict compliance with the Department of Labor regulation concerning the sub-minimum wage. Schools who apply for certification should be required to submit to the Department of Labor a detailed analysis of labor conditions at a school, and provide documentation that sub-minimum rates are needed and can be implemented without violation of the regulations.

If student workers discover that displacement of full time workers is occuring because sub-minimum wages are being paid to students, or that adequate information has not been posted to inform those student workers that a school has applied for a sub-minimum wage certificate, a complaint can be filed with the Wage and Hour Division of the Department of Labor.

Certification for Educational Institutions and Retail Establishments.

A retail employer must also go through the same certification procedure to hire students at sub-minimum wages. The Department of Labor's regulations have one extra stipulation in regard to retail institutions. A retail organization must state that four or less student workers will be employed at sub-minimum wages. If more than four are to be employed, the Department of Labor must be satisfied that no displacement of full time workers will occur.

Colleges are immediately empowered to pay sub-minimum wages as soon as applications for authorization have been applied for. For retail establishments, a certificate from the Department of Labor must be received first, before payment of sub-minimum wages to student workers can begin. This difference in regulation between retail and academic institutions suggests that enforcement of the anti-displacement provision is more strict for a retail organization.

Compliance Check Procedure.

After applying for the certificate, Department of Labor regulations state that a compliance check must be made on the institution in question. During this 30 day period, any person from the community or labor force involved can challenge the application for the sub-minimum wage. The Labor Department may, during this period, call witnesses from union organizations to comment on labor conditions. Union representatives will be asked to make statements of the possibility of full time workers being displaced from employment by full time students being hired at the lower wage. If no compelling complaints are filed with the Department of Labor in 30 days and the Labor Department itself finds no violations of the Fair Labor Standards Act by the institution in question, a certificate of authorization to pay the sub-minimum wage will be issued. This certificate will remain in effect for a period of one year.

Using the Regulation For Your Benefit.

Students must remember that they must take the initiative to inform the Department of Labor that the regulations set down are not being followed. By making both the employer and Labor Department accountable to these regulations, a positive change in student worker conditions can and will occur.

2. DEMAND THAT THE REQUIREMENTS FOR ISSUANCE OF A SUB-MINIMUM WAGE WAIVER UNDER COLLEGE WORK STUDY ARE MET BY BOTH PRIVATE AND PUBLIC INSTITUTIONS.

Since January of 1978 over 120 public higher education institutions have applied to the Office of Education for a waiver that allows them to pay College Work Study students less than the minimum wage. Over 700 private higher education institutions have received permission from the Department of Labor to pay full time students sub-minimum wage. The Office of Education allows this waiver to apply to students working under the College Work Study program even though the requirements for payment of a sub-minimum wage under College Work Study are stricter than those set by Department of Labor.

Under statute and Office of Education regulations a rate of compensation lower than the minimum wage may be made if exceptional circumstances warrant such a lower rate, its approval is not precluded by law and it is consistent with and promotive of the purpose of the College Work Study program.

To summarize, the preconditions of the waiver are:

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1. The sub-minimum wage is commensurate with the skills of the student employee.
2. The sub-minimum wage is not in conflict with local regulations.
3. The sub-minimum wage is comparable to wages paid for similar part-time work in the area.
4. The sub-minimum wage does not discourage but indeed promotes the education of financially needy students.

Payment of sub-minimum wage to students under College Work Study in no way benefits students. It only requires students to work longer hours. It therefore leaves less time for studying and other activities. The institution on the other hand benefits twice. First, under College Work Study the Federal Government pays 80% of the wages paid. Secondly, they are allowed to pay 15% below the minimum wage set by College Work Study. Paying students the minimum wage would cost the institution only 7 cents more per hour under the current minimum wage of $2.65 an hour.

The purpose of the program is employment of students in order to assist them in paying the cost of their education. It is not to provide an inexpensive labor to institutions. Therefore longer hours for lower wages is not consistent with or promotive of the purpose of College Work Study.

The Office of Education is currently granting all applications for waivers. They do not require institutions to provide justification for their request or public notice by the institution that they have or are applying for this waiver. In addition, they do not require the Department of Labor to use stricter requirements of College Work Study in allowing private institutions to pay a sub-minimum wage to College Work Study students.

The Oregon Student Lobby has been fighting the granting of a subminimum wage waiver to the Oregon State System of Higher Education throughout the past year. They have waged an active campaign on the campus, State and Federal levels. This has included collecting wage rate data, surveys of campus wage rates and an intensive awareness raising campaign. The National Student Lobby has been assisting the Oregon Student Lobby in their campaign. The National Student Lobby has begun efforts to have the Office of Education review the entire process by which waivers are granted and develop a new procedure with full input from students.

Students should check to see that they are not being paid sub-minimum wages under College Work Study. Check to see if the Office of Education has granted a sub-minimum wage waiver to your school. File a complaint if it hasn't been already and sub-minimum wages are being paid. Challenge the waiver if it has been issued. If you attend a private institution that has a waiver from the Department of Labor, make sure that the requirements for sub-minimum wage for the College Work Study program are fully met. Urge the Office of Education to change its policy in the granting of these waivers.

3. DEMAND COLLEGE EMPLOYMENT OFFICES INVESTIGATE JOBS LISTED WHICH PAY THE SUB-MINIMUM WAGE.

Students should demand that college employment offices investigate any job request which may pay the sub-minimum wage. If any employers who make such job requests pay the student sub-minimum wage, demand that the employment office adopt a policy of refusing to post such job orders.

4. FILE A COMPLAINT TO THE REGIONAL WAGE AND HOUR DIVISION OFFICES OF THE DEPARTMENT OF LABOR.

Complaints concerning student sub-minimum wages should be directed to

Regional Wage and Hour Division Offices of the Department of Labor. Below is a list of these offices:

ATLANTA, GEORGIA

(Florida, Georgia, Kentucky, North
Carolina, South Carolina, Tennessee)
Room 331
1371 Peachtree St. NE
Atlanta, Georgia 30309
Telephone: (404) 526-5801

BIRMINGHAM, ALABAMA

(Alabama, Mississippi)
1931 Ninth Ave. South
Birmingham, Alabama 35202
Telephone: (205) 229-1302

BOSTON, MASSACHUSETTS

(Connecticut, Maine, Massachusetts,
New Hampshire, Rhode Island, Vermont)
John F. Kennedy Federal Building
Government Center
Boston, Massachusetts 02203
Telephone: (617) 223-5565

CHICAGO, ILLINOIS

(Illinois, Indiana, Michigan,
Minnesota, Ohio, Wisconsin)
230 South Dearborn St.
Eighth floor
Chicago, Illinois 60604
Telephone: (312) 353-7246

DALLAS, TEXAS

(Arkansas, Louisiana, New Mexico,
Oklahoma, Texas)
Room 506
Griffin Square
Dallas, Texas
Telephone:

KANSAS CITY, MISSOURI

(Iowa, Kansas, Missouri, Nebraska)
2000 Federal Office Building
911 Walnut Street
Kansas City, Missouri 64106
Telephone: (816) 374-5382

NEW YORK, NEW YORK

(New Jersey, New York)
1515 Broadway
New York, New York 10036
Telephone: (212) 399-5633

PHILADELPHIA, PENNSYLVANIA

(Delaware, District of Columbia,
Maryland, Pennsylvania, Virginia,
West Virginia)
Gateway Building, 15th floor
3535 Market Street
Philadelphia, Pennsylvania 19104
Telephone: (215) 596-1195

SALT LAKE CITY, UTAH

(Montana, Utah, Wyoming)
3207 Federal Building
125 South State St.
Salt Lake City, Utah 84111
Telephone: (801) 524-5706

SAN FRANCISCO, CALIFORNIA

(Arizona, California, Hawaii,
Nevada, Guam, and various Pacific
Islands)
Room 10431
450 Golden Gate Ave., Box 36018
San Francisco, California 94102
Telephone: (415) 556-3663

5. ORGANIZE BOYCOTT CAMPAIGNS.

Student Governments can effectively launch campaigns to condemn retail and/or educational institutions which pay the sub-minimum wage. An effective method of action could also be the call for consumer and employee boycotts by student groups against those institutions and retail outlets which are paying sub-minimum wage.

6. WRITE NEWS ARTICLES ON THE SUB-MINIMUM WAGE.

Student newspapers can launch informational campaigns concerning the student sub-minimum wage. Lists of retail institutions can be printed in student newspapers in conjunction with boycott efforts.

7. OBTAIN LOCAL UNION SUPPORT.

If students find they have reason to complain to the Department of Labor, support of local unions can be solicited. The national units of the AFL-CIO, American Federation of State, Municipal and County Workers, and the Public Service Employee Union have all shown strong support for the repeal of sub-minimum wage laws. All have local affiliation groups in most states. The address of each organization can be easily found in local telephone directories.

APPENDIX A

Public Institutions That Have Applied For College Work Study Sub-Minimum Wage Waiver

Alabama

Jacksonville State University
Snead State Junior College
Southern Vocational College
University of Northern Alabama

Arizona

Arizona State University
Pinal County Community College District

Arkansas

Arkansas State University
Henderson State University
Southern Arkansas University

California

Mt. San Antonio College

Colorado

Adams State College
Lamar Community College

Florida

Lake City Community College
Manatee Junior College

Georgia

Gordon Junior College
Valdosta State College
West Georgia College

Illinois

Oakton Community College

Indiana

Indiana State University

Iowa

Iowa State University of Science and Technology
North Iowa Afea Community College
Southwestern Community College

Kansas

Fort Scott Community College
Pratt Community College
Washburn University of Topeka

Kentucky

Eastern Kentucky University
Murray State University
Northern Kentucky University
University of Louisville
Western Kentucky University

Louisiana

Louisiana State University at Alexandria
Northwestern State University of Louisiana
The University of Southwestern Louisiana

Maryland

Chesapeake College
Hagerstown Junior College

Missouri

Central Missouri State University
Missouri Southern State College

Missouri

Northeast Missouri State University
Trenton Junior College
University of Missouri

Mississippi

Delta State University

Montana

Miles Community College

New Hampshire

University System of New Hampshire

New Jersey

The William Paterson College of New Jersey

New Mexico

New Mexico Tech
Western New Mexico University

New York

Broome Community College
Cayuga County Community College
Jamestown Community College
Niagara County Community College
State University of New York, Alfred and Plattsburgh

Ohio

Bowling Green State University
Miami University

Oklahoma

Northwestern Oklahoma State University
Southwestern Oklahoma State University
The University of Oklahoma

Oregon

Oregon State System of Higher Education

Pennsylvania

Commonwealth of Pennsylvania, Dept. of Education
East Stroudsburg State College
Indiana University of Pennsylvania
Northhampton County Area Community College

South Carolina

Francis Marion College
Lander College
South Carolina State College
University of South Carolina

Tennessee

Austin Peay State University
Middle Tennessee State University
The State University and Community College System of Tennessee
The University of Tennessee at Chattanooga, Knoxville and Martin

Texas

Dallas County Community College District
Angelo State University
Hill Junior College
Lamar University
Southwest Texas State University
Stephen F. Austin State University
Sul Ross State University
Tarleton State University
Texas A & M University
West Texas State University
Western Texas College
Wharton County Junior College

Utah

Utah Technical College at Provo

Vermont

Vermont Technical College

Virginia

The College of William and Mary
James Madison University
Old Dominion University
Southside Virginia Community College,
Christanna

Washington

The Evergreen State College
Washington State University

West Virginia

Parkersburg Community College
West Virginia Institute of
Technology
West Virginia State College

A listing of the 700 + institutions that have been granted a subminimum wage waiver from the Department of Labor is not available at this time. We urge you to contact your regional Department of Labor office and request a listing of those institutions within your region.

Regulations, Part 519: Employment of Full-time Students at Subminimum Wages

Title 29 of the
Code of Federal Regulations

U S. Department of Labor
Employment Standards Administration
Wage and Hour Division

WH Publication 1223
(Reprinted December 1975)

APPENDIX B

Below you will find the relevant material from Subpart B, Institutions of Higher Education. Complete regulations, including Subpart A which refers to retail or service establishments and agriculture, are available from the Department of Labor.

Subpart B—Institutions of Higher Education

§ 519.11 Applicability of the regulations in this subpart.

(a) *Statutory provisions.* Under section 14 of the Fair Labor Standards Act of 1938, as amended, and the authority and responsibility delegated to him/her by the Secretary of Labor (36 FR 8755) and by the Assistant Secretary for Employment Standards (39 FR 33841) the Administrator of the Wage and Hour Division is authorized and directed, to the extent necessary in order to prevent curtailment of opportunities for employment, to provide by regulation or order for the employment, under certificates, of full-time students in institutions of higher education. That section contains provisions requiring a wage rate in such certificates of not less than 85 percent of the minimum applicable under section 6 of the Act, limiting weekly hours of employment, stipulating compliance with the applicable child-labor standards, and safeguarding against the reduction of the full-time employment opportunities of employees other than full-time students employed under certificates.

(b) *Source of limitations.* Some of the limitations expressed in this subpart are specifically required in section 14(b) of the Act. The other limitations implement the provisions relating to employment opportunities, i.e., the "extent necessary in order to prevent curtailment of opportunities for employment" and the requirement that the regulations shall "prescribe standards and requirements to insure that this paragraph will not create a substantial probability of reducing the full-time employment opportunities of persons other than those to whom the minimum wage rate authorized by" section 14(b) of the Act is applicable.

§ 519.12 Definitions.

(a) *Full-time students.* A "full-time student" for the purpose of this subpart is defined as one who meets the accepted definition of a full-time student of the institution of higher education which employs him/her. A full-time student retains that status during the student's Christmas, summer, and other vacations, even when a student is taking one or more courses during his/her summer or other vacation. The phrase in section 14(b) of the statute "regardless of age but in compliance with applicable child labor laws", among other things, restricts the employment in an institution of higher education to full-time students who are at least 14 years of age because of the application of section 3(1) of the Act.

(b) *Institution of higher education.* An "institution of higher education" is an institution above the secondary level, such as a college or university, a junior college, or a professional school of engineering, law, library science, social work, etc. It is one that is recognized by a national accrediting agency or association as determined by the U.S. Commissioner of Education. Generally, an institution of higher education: (1) Admits as regular students only individuals having a certificate of graduation from a high school or the recognized equivalent of such a certificate; and (2) is legally authorized within a State to provide a program of education beyond high school; and (3) provides an educational program for which it normally awards a bachelor's degree, or provides not less than a two-year program which is acceptable for full credit toward such a degree or offers a two-year program in engineering, mathematics, or the physical or biological sciences which is designed to prepare the student to work as a technician and at a semiprofessional level in engineering, scientific, or other technological fields which require the understanding and application of basic engineering, scientific, or mathematical principles of knowledge.

§ 519.13 Application for a full-time student certificate.

(a) Whenever the employment of its full-time students working in an institution at wages lower than the minimum wage applicable under section 6 of the Fair Labor Standards Act is believed to be necessary to prevent curtailment of opportunities for employment and employment of them will not create a substantial probability of reducing the full-time employment opportunities of other workers, an application for a certificate may be filed by their employer with the appropriate Regional Office of the Wage and Hour Division (or the Denver, Colorado Area Office for Colorado, North Dakota and South Dakota; the Salt Lake City, Utah Area Office for Montana, Utah and Wyoming; and the Caribbean Office for the area it covers). Such an application shall be signed by an authorized representative of the employer.

(b) The application provided for under § 519.14 must be filed in duplicate on official forms or exact copies thereof. The forms are available at the offices mentioned in paragraph (a) of this section. The application must contain the information on numbers of full-time students and full-time employees (other than full-time students), minimum full-time student wages, and other information for which request is made on the form.

(c) Separate application must be made for each campus of an institution of higher education for which authority to employ full-time students at subminimum wage rates is sought.

(d) Application for renewal of a certificate shall be made on the same type of form as is used for a new application. No certificate in effect shall expire until action on such an application shall have been finally determined, provided that such application has been properly executed, and is received by the office specified in paragraph (a) of this section not less than 15 nor more than 30 days prior to the expiration date. A properly executed application is one which fully and accurately contains the information required on the form, and the required certification by an authorized representative of the employer.

§ 519.14 Procedure for action upon an application.

(a) Under certain conditions, an institution of higher education has temporary authorization to employ full-time students at subminimum wages. These conditions are: (1) Absence of an effective finding by the Secretary that the institution has been employing full-time students under certificates in violation of the requirements of section 14(b)(3) of the Act or of these regulations; and (2) forwarding of a properly completed application to the Wage and Hour Division not later than the start of employment of full-time students at subminimum wages; and (3) posting a notice of such filing at the place(s) specified in paragraph (a) of § 519.16 of this subpart; and (4) compliance during the temporary authorization period with the requirements set forth in paragraphs (b) and (e) through (j) of § 519.16 of this subpart.

(b) Temporary authorization under the conditions set forth in paragraph (a) of this section is effective from the date the application is forwarded to the Wage and Hour Division in conformance with § 519.13 of this subpart. This authorization shall continue in effect for one year from the date of forwarding of the application unless, within 30 days, the Administrator or his/her authorized representative denies the application, issues a certificate with modified terms and conditions, or expressly extends the 30-day period of review.

(c) Upon receipt of an application for a certificate, the officer authorized to act upon such application shall issue a certificate if the terms and conditions specified in this subpart are satisfied. To the extent he/she deems appropriate, the authorized officer may provide an opportunity to other interested persons to present data, views, or argument on the application prior to granting or denying a certificate.

(d) Until April 30, 1976, if a certificate is issued there shall be published in the Federal Register a general statement of the terms of such certificate together with a notice that, pursuant to § 519.19, for 45 days following such publication any interested person may file a written request for reconsideration or review. Thereafter, applications and certificates will be available for examination in accordance with applicable regulations in Washington, D.C., and in the appropriate Regional Office of the Wage and Hour Division (or the Denver, Colorado Area Office for Colorado, North Dakota, and South Dakota; the Salt Lake City, Utah Area Office for Montana, Utah, and Wyoming; and the Caribbean Office for the area it covers) for institutions of higher education in its area. A period of 60 days will be provided after certificate issuance during which any interested person may file a written request for reconsideration or review.

(e) If a certificate is denied, notice of such denial shall be sent to the employer, stating the reason or reasons for the denial. Such denial shall be without prejudice to the filing of any subsequent application.

§ 519.15 Conditions governing issuance of full-time student certificates.

Certificates authorizing the employment of full-time students at subminimum wage rates shall not be issued unless the following conditions are met:

(a) Full-time students are available for employment at subminimum rates; the granting of a certificate is necessary in order to prevent curtailment of opportunities for employment.

(b) The employment of full-time students will not create a substantial probability of reducing the full-time employment opportunities for persons other than those employed under such certificates.

(c) Abnormal labor conditions such as a strike or lockout do not exist in the units of the campus for which a full-time student certificate is requested.

(d) The data given on the application are accurate and based on available records.

(e) There are no serious outstanding violations of the provisions of a full-time student certificate previously issued to the employer, nor have there been any serious violation of the Fair Labor Standards Act (including Child-Labor Regulation No. 3 and the Hazardous Occupations Orders published in Part 570 of this chapter) which provide reasonable grounds to conclude that the terms of a certificate may not be complied with, if issued.

(f) The subminimum wage rate(s) proposed to be paid full-time students under temporary authorization or under certificate is not less than 85 percent of the minimum wage applicable under section 6 of the Act.

(g) Full-time students are not to be employed by an institution of higher education at subminimum wages under this subpart in unrelated trades or businesses as defined and applied under sections 511 through 515 of the Internal Revenue Code, such as apartment houses, stores, or other businesses not primarily catering to the students of the institution.

(h) Certificates will not be issued where such issuance will result in a reduction of the wage rate paid to a current employee, including current student employees.

§ 519.16 Terms and conditions of employment under full-time student certificates and under temporary authorization.

(a) A full-time student certificate will not be issued for a period longer than 1 year, nor will it be issued retroactively. It shall specify its effective and expiration dates. A copy of the certificate shall be posted during its effective period in a conspicuous place or places in the institution of higher education readily visible to all employees, for example, adjacent to the time clock or on the bulletin board used for notices to the employees. If temporary authorization is in effect under paragraph (a) of § 519.14, a notice thereof shall be similarly posted during the effective period of such authorization.

(b) Full-time students may not be employed under a certificate at less than 85 percent of the minimum wage applicable under section 6 of the Act.

(c) An institution of higher education shall not employ full-time students at subminimum wages under this subpart in unrelated trades or businesses as defined and applied under sections 511 through 515 of the Internal Revenue Code, such as apartment houses, stores, or other businesses not primarily catering to the students of the institution.

(d) An institution of higher education subject to a finding by the Secretary that it is in violation of the requirements of section 14(b)(3) of the Act or of this subpart must be issued a full-time student certificate before it can employ full-time students at wages below those required by section 6 of the Act. The Administrator or his/her authorized representative will not issue a full-time student certificate to such an institution without adequate assurances and safeguards to insure that the violations found by the Secretary will not continue.

(e) Full-time students shall not be permitted to work at subminimum wages for more than 8 hours a day, nor for more than 40 hours a week when school is not in session, nor more than 20 hours a week when school is in session (apart from a full-time student's summer vacation), except that when a full-day school holiday occurs the weekly limitation on the maximum hours which may be worked shall be increased by 8 hours for each such holiday but in no event shall the 40-hour limitation be exceeded. (Note: School is considered to be in session for a student taking one or more courses during a summer or other vacation.) Whenever a full-time student is employed for more than 20 hours in any workweek in conformance with this paragraph, the employer shall note in his/her payroll that school was not in session during all or part of that workweek or the student was in his/her summer vacation.

(f) Neither oppressive child labor as defined in section 3(l) of the Act and regulations issued under the Act nor any other employment in violation of a Federal, State or local child labor law or ordnance shall come within the terms of any certificate issued under this subpart.

(g) Full-time students shall be employed at subminimum wages under this subpart only outside of their school hours, i.e., only outside of the scheduled hours of instruction of the individual full-time student.

(h) No full-time student shall be hired under a full-time student certificate for work in a unit or units of the campus where abnormal labor conditions, such as a strike or lockout, exist.

(i) No provision of any full-time student certificate shall excuse noncompliance with higher standards applicable to full-time students which may be established under the Walsh-Healey Public Contracts Act or any other Federal law, State law, local ordnance, or union or other agreement. Thus, certificates issued under this subpart have no application to employment under the Service Contract Act.

(j) No full-time student certificate shall apply to any employee to whom a certificate issued under section 14(a) or (c) of the Act has application.

§ 519.17 Records to be kept.

(a) The employer shall designate each worker employed as a full-time student under a full-time student certificate at subminimum wages, as provided under Part 516 of this chapter.

(b)(1) In addition to the records required under Part 516 of this chapter and this subpart, the employer shall keep the records specified in paragraph (b)(2) and (3) of this section specifically relating to full-time students employed at subminimum wages.

(2) The institution shall obtain at the time of hiring and keep in its records information that the employee is its full-time student at the physical location of the institution in accordance with its accepted definition of a full-time student. During a period between attendance at different schools not longer than the usual summer vacation, the acceptance by the institution of the full-time student for its next term will satisfy the requirements of this subparagraph.

(3) An institution of higher education shall maintain records showing the total number of all full-time students of the type defined in § 519.12(a) employed at the campus of the institution at less than the minimum wage otherwise applicable under the Act, and the total number of all employees at the campus to whom the minimum wage provision of the Act applies.

(c) The records required in this section, including a copy of any full-time student certificate issued, shall be kept for a period of 3 years at the place and made available for inspection, both as provided in Part 516 of this chapter.

§ 519.18 Amendment or replacement of a full-time student certificate.

In the absence of an objection by the employer (which may be resolved in the manner provided in Part 528 of this chapter) the authorized officer upon his/her own motion may amend the provisions of a certificate when it is necessary by reason of the amendment of these regulations, or may withdraw a certificate and issue a replacement certificate when necessary to correct omissions or apparent defects in the original certificates.

§ 519.19 Reconsideration and review.

(a) Within 15 days after being informed of a denial of an application for a full-time student certificate or within 45 days after Federal Register publication of a statement of the terms of the certificate granted (subsequent to April 30, 1976, within 60 days after a certificate is granted), any person aggrieved by the action of an authorized officer in denying or granting a certificate may: (1) File a written request for reconsideration thereof by the authorized officer who made the decision in the first instance, or (2) file with the Administrator a written request for review.

(b) A request for reconsideration shall be accompanied by a statement of the additional evidence which the applicant believes may materially affect the decision and a showing that there were reasonable grounds for failure to present such evidence in the original proceedings.

(c) Any person aggrieved by the reconsideration determination of an authorized officer may, within 15 days after such determination, file with the Administrator a written request for review.

(d) A request for review shall be granted where reasonable grounds for the review are set forth in the request.

(e) If a request for reconsideration or review is granted the authorized officer or the Administrator may, to the extent he/she deems it appropriate, afford other interested persons an opportunity to present data, views, or argument.

§ 519.20 Amendment or revocation of the regulations in this subpart.

The Administrator may at any time upon his/her own motion or upon written request of any interested person or persons setting forth reasonable grounds therefor, and after opportunity has been given to interested persons to present data, views, or argument, amend or revoke any of the regulations of this subpart.

Mr. FORD. Would you like to proceed, Mr. Kocian?
[Prepared statement of Mr. Kocian follows:]

copus Washington

STATEMENT OF THE
COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

BEFORE THE
HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION
THE HONORABLE WILLIAM D. FORD, CHAIRMAN

Presented by Patrick W. Kocian
National Director

June 7, 1979

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

STUDENT WORK PROGRAMS

The Coalition of Independent College and University Students
1730 Rhode Island Avenue, N.W., Suite 500, Washington, D.C. 20036 Tel. (202) 659-1747

Mr Chairman and Members of the Subcommittee, I am Patrick W. Kocian, National Director of the Coalition of Independent College and University Students (COPUS). It is one of the more pleasant functions of my job to work with your Subcommittee, and I am happy to appear before you again on the subject of the Higher Education Act reauthorization. Today I would like to present our organization's views on the College Work Study program.

I hope you will forgive me if my presentation is relatively brief. This brevity merely reflects the unique popularity of the Work Study program. I know of no one in the higher education community, or, for that matter, in Congress or in the Administration, who calls for a substantial modification or overhaul of the program. Work Study is, perhaps for the wrong reasons, unusually well-recieved in Congress; even the Appropriations Committees seem to like it.

College Work Study is equally popular among students. We would like to propose a few improvements to enhance and broaden its appeal. But, before we can proceed in making a good program better, we must first rescue College Work Study from its single, but insidious the irrational, unjustified, and defeating practice of permiting institutions to waive the minimum wage rights of Work Study students.

Sub-minimum wage: it's not an issue that we've always taken seriously.

It somehow seemed a small, technical matter; those few institutions which paid subminimum wages, did so, we suspected, for entirely legitimate reasons. It seemed out of the scope of our professional self image. But one day in the midst of MISAA, while relaxing with my predecessor after the day's work, we read in the trade newspaper that over 700 private colleges had thus far applied for a waiver of their minimum wage responsibility. *700!* Nearly half of the colleges that our members call their own! My colleague and I looked at each other in disbelief: our colleges? Clearly, this *is* an issue for COPUS.

I won't delve into the moral objections to subminimum wages, though they most certainly are relevant. Instead, let us consider the practical implication of Work Study wage rates, and its relation to the fundamental purpose and service of the Work Study program.

Allocations of Work Study funds to institutions are fixed, at least so far as they relate to Work Study wages; the amount of a school's Work Study funds is determined without any reference to its CWS wages. The logical corollary of this is that the number of students recieving Work Study assistance at a school, and the individual authorizations for Work Study students, bear no direct relationship to Work Study wages. Wage variances affect, directly, only the amount of work purchased. Ceteris paribus, when wages go up, aggregate work hours go down.

It is clear, then, that to eliminate the minimum wage waivers is to increase the personnel requirements at many colleges. But we urge you to recall that the College Work Study program is distinguished from other forms of institutional employment, in that it was intended and authorized exclusively as a *program of financial aid to students.* But by indiscriminately granting waivers of the minimum wage rights of students, the Work Study program has been threatened with a subversion of purpose: who is CWS intended to serve, students or institutions? If it is a student assistance program, then it is corrupted every time an institution is permitted to pay subminimum wages to CWS students.

If it is your intention that College Work Study remain a student aid program, then no one may suggest to you that subminimum CWS wages may be justified by institutional personnel needs. The only credible hesitancy about eliminating the minimum wage waiver, expressed by some of our own members, is that work-hours lost to institutions required to pay minimum wages will likely be taken from those services most addressed to students, such as food, recreational, and residential services. This is a plausible scenario and a valid concern. COPUS is convinced, however, that, given the option, most students would accept a marginal and temporary reduction in student services in exchange for the assurance of a fair wage for the work of their fellow students. This is a self-righteous issue for most students, and it should be.

The abuse of student minimum wage rights is most acute in the independent sector; in FY 78, over 900 private colleges and universities were permitted to pay subminimum wages to student employees (not all of whom were CWS students). Representing students in the independent sector, we are fully aware of, and seriously concerned with the fiscal pressures under which our colleges must struggle to operate--we understand well the direct relationship between institutional well-being, and the educational product provided. COPUS is anxious to help solve the problems of the institutions we attend. But the problems of our colleges must be addressed *honestly*, and not at the expense of the College Work Study program, or the students it is intended to serve. We urge you to reaffirm Work Study as a student aid program, and to eliminate institutional waivers of student minimum wage rights. COPUS has submitted legislative language to effect this amendment.

Our other chief concern with College Work Study is with its frequent inability to provide aided students with academically appropriate employment. We understand that experiential education is not a primary function of the program, but believe that providing such opportunities is a worthy secondary objective. It is regretable that this popular and effective program so often requires its clients to choose between financial and academic sacrifice. Too many CWS students currently are channeled into meaningless jobs that have little educational value--at the cost of time otherwise available for a student's traditional academic pursuits. How much better would that time be spent if Work Study employment offered experiential education as well as financial aid to students?

COPUS has offered a number of responses to this concern. The first is merely symbolic: we have suggested that the objective of providing such appropriate employment, be included within the program's statement of purpose. This non-binding language will set this objective as a reasonable program goal.

Our second proposal is more substantial. As you know, institutions are currently permited to use a portion of their Work Study allotments for the establishment and operation of jobs-development programs. Such programs have an obvious potential to identify Work Study jobs that are suited to the academic and occupational interests of students. Unfortunately, few institutions avail themselves of this opportunity, for it requires the expenditure of funds that would otherwise be available for student financial aid.

COPUS proposes to encourage institutions to utilize CWS funds for jobs-development programs. We suspect, however, that such encouragement will have little success so long as we ask institutions to create development programs at the expense of their student aid funds. Instead, we propose to withold a small percentage of the annual Work

Study appropriation--we have suggested 3%--to be distributed by the Commissioner only to those institutions which have agreed to use the funds for jobs-development purposes. By separating these special funds from the general student aid funds, we remove the disincentive to support jobs-development programs; by allocating a percentage of Work Study funds only to institutions committed to such programs, we create a strong incentive to support jobs-development.

Some people have suggested that Work Study monies be available to support students employed in the private, for profit sector. As an answer to the need for more relevant Work Study employment, COPUS is generally amenable to such proposals. But we suspect that in most communities, there is ample non-profit service and research opportunities available off-campus, if only sought and identified. Particularly as we again here the call for increased, perhaps coerced national service of our young people, we are compelled to believe that the non-profit, off-campus job market has never been substantially tapped by the Work Study program. Thus, we would again put our emphasis on jobs-development programs at college campuses, before extending the program to the private, for-profit sector.

Other Concerns:

COPUS questions the state allotment formula for College Work Study; most of the eligibility criteria seem unrelated to the intent of the program. The low income third of the criteria seems more relevant to the program's origins in the Economic Opportunity Act, and is clearly anachronistic. The high-school student part of the criteria seems designed only to assure funding for states with a net migration of students; certainly, *that* is an immaterial consideration in the delivery of financial aid. As with other campus-based aid programs, COPUS proposes to base Work Study allocations on the relative aggregate state need, as determined by institutional application for funds. To allocate need-based student aid dollars on any basis other than student need can only diminish program effectiveness, and corrupt the overall relationship between all federal student aid programs.

Another concern we have is with the requirement that summer Work Study students, living away from home, retain at least 60% of their earnings to contribute to their college costs the subsequent year. We believe that this regulatory requirement is too rigid, and represents a substantial burden on many Work Study students. Students working on campus for the summer, with relatively low living costs, may be able to get by on only 40%, or $600 of their earnings, but such an expectation of a Work Study student working in, say, Washington, D.C. is clearly unreasonable. We would suggest lowering the minimum percentage of earnings required of summer Work Study students for college expenses, while allowing campus financial aid officers some discretion in increasing the student contribution under circumstances which warrant it.

COPUS also supports the proposals to allow institutions to either carry-over a percentage of their Work Study allocation to the subsequent year, or to draw on a similar percentage of their subsequent year allocations for current year expenses. This modest flexibility will free financial aid officers from the worry of overspending their resources--a worry that translates into a hesitancy in awarding Work Study grants to students.

Of course, COPUS proposes to extend the authorization of College Work Study to 1987, with annual authorization increases of $50 million. Such increases merely reflect the demonstrated Congressional support for the most popular and effective federal student aid program.

STATEMENT OF PATRICK W. KOCIAN, NATIONAL DIRECTOR, COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS, WASHINGTON, D.C.

Mr. KOCIAN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee: I am Patrick W. Kocian, National Director of the Coalition of Independent College and University Students (COPUS).

It is one of the more pleasant functions of my job to work with your subcommittee, and I am happy to appear before you again on the subject of the Higher Education Act reauthorization. Today I would like to present our organization's views on the college work-study program.

I hope you will forgive me if my presentation is relatively brief. This brevity merely reflects the unique popularity of the work-study program. I know of no one in the higher education community or, for that matter, in Congress or in the administration, who calls for a substantial modification or overhaul of the program. Work-study is, perhaps for the wrong reasons, unusually well received in Congress; even the Appropriations Committees seem to like it.

College work-study is equally popular among students. We would like to propose a few improvements to enhance and broaden its appeal. But, before we can proceed in making good programs better, we must first rescue college work-study from its single, but insidious, the irrational, unjustified, and defeating practice of permitting institutions to waive the minimum wage rights of work-study students.

I want to thank you and Joel for presenting most of my testimony on minimum wage, but in that it is very important I would like to speak to it myself a little bit.

Those few institutions which paid subminimum wages did so, we suspected, for entirely legitimate reasons, it seemed out of the scope of our professional self-image. But one day in the midst of MISAA, while relaxing with my predecessor after the day's work, we read in the trade newspaper that over 700 private colleges had thus far applied for a waiver of their minimum wage responsibility—700—nearly half of the colleges that our members call their own! My colleague and I looked at each other in disbelief: our colleges? Clearly, this is an issue for COPUS.

I won't delve into the moral objections to subminimum wages, though they most certainly are relevant. Instead, let us consider the practical implication of work-study wage rates, and its relation to the fundamental purpose and service of the work-study program.

As Joel touched on, allocations of work-study funds to institutions are fixed, at least so far as they relate to work-study wages; the amount of a school's work-study funds is determined without any reference to its CWS wages.

The logical corollary of this is that the number of students receiving work-study assistance at a school, and the individual authorizations for work-study students, bear no direct relationship to work-study wages. Wage variances affect, directly, only the amount of work purchased. Ceteris paribus, when wages go up, aggregate work hours go down.

It is clear, then, that to eliminate the minimum wage waivers is to increase the personnel requirements at many colleges. But we urge you to recall that the college work-study program is distinguished from other forms of institutional employment in that it was intended and authorized exclusively as a program of financial aid to students. But by indiscriminately granting waivers of the minimum wage rights of students, the work-study program has been threatened with a subversion of purpose: Who is CWS intended to serve, students or institutions?

If it is your intention that college work-study remain a student aid program, then no one may suggest to you that subminimum CWS wages may be justified by institutional personnel needs. The only credible hesitancy about eliminating the minimum wage waiver, expressed by some of our own members, is that work hours lost to institutions required to pay minimum wages will likely be taken from those services most addressed to students, such as food, recreational, and residential services. This is a plausible scenario and a valid concern.

COPUS is convinced, however, that, given the option, most students would accept a marginal and temporary reduction in student services in exchange for the assurance of a fair wage for the work of their fellow students. This is a self-righteous issue for most students, and it should be.

The abuse of student minimum wage rights is most acute in the independent sector. In fiscal year 1978, over 900 private colleges and universities were permitted to pay subminimum wages to student employees, not all of whom were CWS students.

Representing students in the independent sector, we are fully aware of and seriously concerned with the fiscal pressures under which our colleges must struggle to operate. We understand well the direct relationship between institutional well-being and the educational product provided.

COPUS is anxious to help solve the problems of the institutions we attend. But the problems of our colleges must be addressed honestly and not at the expense of the college work-study program or the students it is intended to serve.

We urge you in the strongest terms to reaffirm work-study as a student aid program and to eliminate institutional waivers of student minimum wage rights. COPUS has submitted legislative language to effect this amendment.

Our other chief concern with college work-study is with its frequent inability to provide aided students with academically appropriate employment. We understand that experiential education is not a primary function of the program but believe that providing such opportunities is a worthy secondary objective.

There is a great potential here to double the value of work-study by providing experiential education as well as financial aid. Someone on the subcommittee had asked what was the cause of the decreased demand for work-study and work-study jobs.

I don't know, but I suggest part of it might be that work-study students are being increasingly channeled into libraries, kitchens, janitorial services, et cetera, and that is hardly worth the expenditure of study time to many students.

We believe COPUS has offered a number of responses to this concern. The first is merely symbolic: We have suggested that the objective of providing such appropriate employment be included within the program's statement of purpose. This nonbinding language will set this objective as a reasonable program goal.

Our second proposal is more substantial. As you know, institutions are currently permitted to use a portion of their work-study allotments for the establishment and operation of jobs-development programs. Such programs have an obvious potential to identify work-study jobs that are suited to the academic and occupational interests of students. Unfortunately, few institutions—according to Mr. Smith, only 144 institutions have done this—avail themselves of this opportunity, for it requires the expenditure of funds that would otherwise be available for student financial aid.

COPUS proposes to encourage institutions to utilize CWS funds for jobs-development programs. We suspect, however, that such encouragement will have little success so long as we ask institutions to create development programs at the expense of their student aid funds. Instead, we propose to withhold a small percentage of the annual work-study appropriation—we have suggested 3 percent—to be distributed by the Commissioner only to those institutions which have agreed to use the funds for jobs-development purposes. By separating these special funds from the general student aid funds, we remove the disincentive to support jobs-development programs. By allocating a percentage of work-study funds only to institutions committed to such programs, we create a strong incentive to support jobs development.

Joel and others have mentioned the idea of extending work-study to some degree to the private sector. We have no objection to this; it seems like a fair idea. But we suspect, however, that in most communities there is ample nonprofit service and research opportunities available off-campus, if only sought and identified.

Particularly as we again hear the call for increased, perhaps coerced national service of our young people, we are compelled to believe that the nonprofit, off-campus job market has never been substantially tapped by the work-study program. Thus, we would again put our emphasis on jobs-development programs at college campuses, before extending the program to the private, for-profit sector.

But, again, we don't mean to oppose that amendment altogether.

Other concerns: COPUS questions the State allotment formula for college work-study; most of the eligibility criteria seem unrelated to the intent of the program. The low-income third of the criteria seems more relevant to the program's origins in the Economic Opportunity Act and is clearly anachronistic.

The high school student part of the criteria seems designed only to insure funding for States with a net migration of students. Certainly, that is an immaterial consideration in the delivery of financial aid.

As with other campus-based aid programs, COPUS proposes to base work-study allocations on the relative aggregate State need, as determined by institutional application for funds. To allocate need-based student aid dollars on any basis other than student need can only diminish program effectiveness and corrupt the overall relationship between all Federal student aid programs.

Another concern we have is with the requirement that summer work-study students, living away from home, retain at least 60 percent of their earnings to contribute to their college costs the subsequent year.

We believe that this regulatory requirement is too rigid and represents a substantial burden on many work-study students. Certainly students should contribute to their college costs, but 60 percent is very rigid.

Students working on campus for the summer, with relatively low living costs, may be able to get by on only 40 percent, or $600 of their earnings, but such an expectation of a work-study student working in, say, Washington, D.C. is clearly unreasonable.

If you have everybody to a congressional reception with a cash bar you can spend $50 a night.

We would suggest lowering the minimum percentage of earnings required of summer work-study students for college expenses, while allowing campus financial aid officers some discretion in increasing the student contribution under circumstances which warrant it.

I should add these percentages are regulatory; they are not in the law.

We also support the proposals to allow institutions to either carry over a percentage of their work-study allocation to the subsequent year or to draw on a similar percentage of their subsequent year allocations for current year expenses.

This modest flexibility will free financial aid officers from the worry of overspending their resources—a worry that translates into a hesitancy in awarding work-study grants to students.

Of course, COPUS proposes to extend the authorization of college work-study to 1987, with annual authorization increases of $50 million. Such increases merely reflect the demonstrated congressional support for the most popular and effective Federal student aid program.

Mr. Ford. Thank you. Mr. Crowley.

[Prepared testimony of Mr. Crowley follows:]

TESTIMONY
on the
FEDERAL COLLEGE WORK-STUDY PROGRAM
before the
Subcommittee on Postsecondary Education
# of the
COMMITTEE ON EDUCATION AND LABOR
UNITED STATES HOUSE OF REPRESENTATIVES

by

John C. Crowley
Director of Federal Relations
for Science Research

on behalf of the
Association of American Universities
Council of Graduate Schools
National Association of State Universities
and Land-Grant Colleges

June 7, 1979

Testimony before
HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION

Mr. Chairman and Members of the Committee:

My name is John Crowley and I am Director of Federal Relations for Science Research of the Association of American Universities. It really is in my former incarnation as a graduate student that I will be speaking to you this morning about the use of the Federal College Work-Study Program for Graduate Students. In 1977, I completed a research project on the use of the Federal College Work-Study Program for graduate and professional students by the 48 American universities which are members of the Association of American Universities. A published summary has been provided to the Committee. I will restrict these remarks to a brief review of recent trends in the support of graduate students and of my conclusions from that research project.

THE PROBLEM

In the years since the passage of the Higher Education Act of 1965 the federal role in graduate education and in the support of graduate students has been eclipsed by the need to address pressing needs for undergraduates. I think it has been forgotten that graduate students account for 10 percent of total enrollment in colleges and universities. The extensive federal fellowship and traineeship support that was available during the early 1960's has largely disappeared. While some federal funds remain available for doctoral students, most of these are limited to advanced graduate students in the sciences who work as research assistants to faculty on funded research projects.

Other options are limited. Graduate students are ineligible for grant funds under both the BEOG and the SEOG programs although I do believe a strong case can be made for a limited change that would allow SEOG recipients who are admitted to graduate and professional schools to be eligible for SEOG assistance through at least the first year of graduate study.

The Graduate and Professional Opportunities Program authorized under Title IX is a small program targeted on racially and ethnically underrepresented populations. In 1978-79 only $8 million was available to make just 350 awards of $3900 each. If the $15 million requested in 1980 is appropriated, this still will equal only a small fraction of the sum available for BEOG's. Institutional funds and funds from private agencies do provide some support, but private sources of support have also diminished.

In the face of this, federal graduate student financial aid policies now force many graduate students to rely most heavily on loans. As a result, the number of students borrowing to finance their education has substantially increased between 1971 and 1975. The proportion of total dollar volume of guaranteed student loans awarded to graduate students in that period jumped from 11 percent to 18 percent. According to the 1971-76 data of the National Research Council's doctorate record file, the number of students using loans as their most important financing sources has steadily increased.

As a result, the cumulative debt burdens of graduate students are growing significantly. Graduate students now seem to be expected to incur debts in amounts that strain their means. The present maximum that a student may borrow under the GSL and NDSL programs combined is $25,000, but it has been calculated that a beginning professional, with a salary of about $15,000 (an assistant professor, for example) cannot reasonably be expected to service a loan in excess of $8,000. Many graduate students complete their undergraduate educations with substantial debts of several thousand dollars.

They then can afford to borrow only a small additional amount to help finance their graduate degree before exceeding a reasonable or manageable debt limit.

Prospective Arts and Science graduate students typically face difficult financial situations compounded by several factors: high expenses for undergraduate education, low or non-existent student earnings and assets, families unable or unwilling to contribute to the graduate education of their children, no access to grant funds (BEOG or SEOG), limited federal fellowship opportunities, constricted academic career opportunities and low salary prospects for the successful new faculty member. All of this is compounded by the substantial foregone income that results from up to six or more years of graduate or professional training.

Consequently, the financial prospects facing a talented prospective graduate student in arts and sciences frequently are forbidding. The system seems now to favor those who either have the necessary financial resources or who can borrow in substantial amounts. Many students fear, or simply cannot incur a major debt. Administrators working with these students know that this seems to be true particularly for students from low-income backgrounds.

The case for the federal role in graduate education today rests not on the arguments of the sixties for the production of steadily increasing numbers of highly trained individuals, but on the need to provide for continued access and free choice for the nation's most intellectually qualified. Graduate education is not viewed as an entitlement; no one should, I believe, argue that everyone has a right to go to graduate school, or that there should be a graduate equivalent of the BEOG program.

Nor should we, under current circumstances, argue that total enrollments should be increased and that more students should be going to graduate schools. Proposals have been made to this Committee to extend eligibility for student assistance programs to students enrolled in undergraduate programs on a less than half-time basis. That may be a desirable change in public policy. I would argue, however, that it is at least as much in the nation's interest that individuals who are pursuing a graduate degree be our most intellectually able and not our most financially able. This country's system of financial assistance should provide for the needy among those who have the ability to pursue advanced studies and training and who will become the nation's leaders in the arts, sciences and the professions. One small, but effective way to address a part of the problem is to make some needed adjustments in the administration of the CWSP Program that would encourage its use for graduate and professional students.

RECOMMENDATIONS

A Reaffirmation of Intent

From the time the work-study program was created in 1964 as part of the Economic Opportunity Act, the law has made undergraduate, graduate and professional students eligible for the funds. Thousands of graduate students have received work-study funds. Many work in jobs directly related to their studies. Over the years, the number of graduate students receiving work-study assistance, while small, has steadily increased. According to a 1977 report by the American Council on Education, in 1976-77 five percent (35,000) of all CWSP recipients (698,000) were graduate students. In public universities, 10.8 percent of work-study students were graduate students and in private universities 16.7 percent of students receiving work-study were enrolled in graduate and professional programs. The growth in the use of the program at the post-baccalaureate level is encouraging, but much remains to be done to inform students, their graduate and professional schools and others of the availability and potential of this program and to encourage federal program administrators to foster the use of the program for graduate and professional students.

Therefore, I would urge the Committee to include in its report a strong reaffirmation of the role of the work-study program for graduate and professional students and to encourage graduate and professional schools and student aid officers to develop the untapped potential of the program. This Committee should encourage federal program managers to take the steps necessary to enhance the use of the program for these students. A strong reaffirmation by this Committee of your intention in this area would make a difference. It is fair to say that despite a law which clearly states that graduate and professional students shall be eligible for work-study and a long, clear congressional record of support for the program, confusion remains among graduate and professional students, their schools and student financial aid administrators. A restatement of congressional intent for this dimension of the program would be timely and helpful.

Payment on a Salary Basis

Second, I would urge the Committee to direct that the regulations (Section SEC.175.24 (a)) be amended to permit universities the option of compensating graduate and professional students on a salary basis. Current regulations require that students aided with work-study funds be paid hourly wages. Time cards or comparable record-keeping and reporting mechanisms must be used by students and work reports must be certified by their supervisors. This causes institutions to restrict work-study employment to less than professional jobs and to construct convoluted non-standard payment procedures for compensating graduate students with work-study funds.

Undergraduate students typically hold work-study jobs in libraries, food service departments, and similar activities where hourly wage reporting is reasonable and appropriate. For them, current regulations and time-keeping systems are entirely satisfactory. But many graduate and professional students are employed as junior professionals. They often serve as colleagues to faculty and serve as teaching and research assistants. For many of them and for their faculty supervisors, hourly time reporting is an impediment to the use of the program. It just doesn't fit the circumstances of their employment, or their relationship with their supervisors. The hourly requirements are burdensome and impractical and are generally held by graduate and professional schools to be inappropriate for junior professionals serving in administrative, teaching or research-related positions.

The use of the work-study at the graduate and professional levels would be eased if universities were given the option in the regulations to compensate graduate and professional students, as appropriate, on a salary basis. Of course, reasonable certification of effort and performance should be required. It would be appropriate to require periodic, perhaps term, certification from faculty supervisors stating that assisted students have satisfactorily fulfilled professional responsibilities for which they were receiving work-study compensation.

Last year several higher education associations made this recommendation to Commissioner Boyer. The Commissioner declined to make the change because, he replied, "there is no statutory rationale" to differentiate between undergraduate and graduate students. For your information, a copy of our letter to him and the Commissioner's response has been given to your staff. I hope the Committee will provide the statutory basis for this technical change in the regulation. No other change would do as much to ease the use of the program for graduate and professional students.

Need

Third, because many graduate students find themselves unable to call on already strained family resources in financing their advanced education, it may be appropriate to provide the flexibility in the law to allow graduate students to receive work-study assistance, when funds are available, without regard to need. While the law should retain priority for undergraduate and graduate students with the greatest financial need, it would enhance the use of the program at the graduate and professional levels if CWSP funds were available to graduate students without regard to need where appropriations are sufficient. A specific proposal on this point has been presented to the Committee by the Association of American Universities, the Association of Graduate Schools and by the Council of Graduate Schools. I urge the Committee to give it careful consideration.

Mr. Chairman, I want to thank you for the opportunity to present these views to the Committee. I know that this Committee has been a particularly strong advocate of the work-study program since it was created. The program has been a favorite of the Congress; the legislative record shows that clearly and it does seem to me that the program continues to offer substantial untapped potential for the future. It also offers valuable educationally-related work experience to graduate and professional students which enhances their future employment prospects. Law schools and their students learned this early in the program, and law students now are the single largest group of students aided by the program among professional schools.

The experience of the first 12 years clearly demonstrates that the program has an important role to play for graduate and professional students. I urge the Committee to sustain your support for the program and to provide an authorization sufficient to meet the needs of both undergraduate and graduate students.

I will be happy to respond to your questions.

ATTACHMENT A

THE FEDERAL COLLEGE WORK-STUDY PROGRAM IN THE AAU UNIVERSITIES 1965-1976: SOME IMPLICATIONS OF PROFESSIONAL DISCRETION

By John C. Crowley

Introduction

This is a summary of a study of the Federal College Work-Study Program (CWSP) which was completed early in 1977. The purpose of the project was to analyze the implementation of the Work-Study program since 1965 by the 48 institutions which comprise the Association of American Universities (AAU). The article addresses the ways in which these 24 private and 24 public universities have established this student assistance policy and considers some of the implications for universities and particularly for graduate students.

Methodology

A 4-part methodology was used in the project. Questionnaires were distributed in the spring to the 48 AAU Directors of student financial aid, and by last August all 48 had responded. Their purpose was to gather information concerning university Work-Study student selection and award policies, policy making processes and related program information. In addition, Congressional staff, United States Office of Education (USOE) officials and over 120 student aid officers, graduate and professional school deans, department chairmen, faculty and students were interviewed in 19 public and private universities. Program data were culled from USOE files of institutional fiscal operations reports and aid applications. Congressional hearing records, Committee reports, floor debates and related material also were reviewed.

Legislative History – Congressional Intent

A review of the program's legislative record supports the following conclusions:

First, from its beginning the Work-Study program has enjoyed great popular-

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ity in the Congress and in colleges and universities. It is practically impossible to find criticism or even lengthy discussion of the program in the record. Indeed, because of this support the Work-Study program's legislative history is probably the thinnest of any Federal student aid program. As many Congressional staff quickly pointed out, however, this meager legislative record should be interpreted as a tribute to the program, and not as an indication of congressional disinterest.

Second, the Congress does intend the program to serve graduate and professional students as well as undergraduates. The law, the cumulative legislative record and congressional staff comments confirm this clearly. Since its beginning as Section 124 (C) (4) of the Economic Opportunity Act of 1964 the law has made undergraduate, graduate and professional students eligible for Work-Study assistance. House and Senate hearing records also contain a number of specific references to and brief discussions about participation by graduate and professional students. To cite an early example, a 1965 USOE planning memorandum anticipated that approximately 20 percent of the funds would be awarded to graduate and professional students, and that the maximum and average awards to these students would be double those made to undergraduates.

Because of its popularity Work-Study has been steadily enlarged while escaping the controversies which have encumbered the grant and loan programs. When the legislation was renewed in 1968 and 1972 Work-Study was substantially expanded, but it was pushed aside in both houses of Congress by more controversial issues. In fact, until Chairman O'Hara's extensive oversight hearings in 1975, a full hearing had not been held in either house since 1964 specifically on the Work-Study program.

The attitude of the Congress in 1964 on the question of graduate student participation in Work-Study was summed up by a former Senate staff member, who was present at the time. He recalled Committee Chairman Senator Wayne Morse's feelings toward the program:

> "He liked it. He worked as a student and he remembered. He had a great interest in taking care of the "C" student. He considered all students as a universe and he saw Work-Study as equally suited to graduate students. There is no good objection you could raise to it. At the time, Work-Study was also a popular idea with Congressional staff and Senators who had themselves done graduate work. Look at the age of the Senate when it passed; many members remembered the depression era program run by NYA."

Thus it is clear, as the law says, that the Congress intends the Work-Study program to serve undergraduate, graduate and professional students. There is nothing in the legislative history which indicates that the program was intended to exclude, or diminish the participation of, eligible graduate or professional students. When gathered together the record reads quite the contrary.

CWSP in the AAU Universities 1965-1976.

But what has been the experience in the research universities since 1965? In total, graduate students are a very small proportion of the national Work-Study population. According to a 1975 American Council on Education Report, 3.9% of all Work-Study recipients in 1974 were graduate students. However, graduate students are approximately 10% of total CWSP recipients in universities. USOE data also show a steady increase in the total number of graduate students aided in recent years. In 1971, 17,500 graduate students received Work-Study support. By 1974, it is estimated that the number of graduate students awarded Work-Study had doubled.

Since Work-Study is a so-called campus based program, it should surprise no one that the size of Work-Study programs and student support policies and practices have varied dramatically among the nation's leading public and private research universities, all of which enroll substantial numbers of graduate and professional students. Some universities proportionately have very large Work-Study programs, others are quite small (Table 1). Some universities in both sectors consistently have allocated substantial proportions of Work-Study funds to graduate and professional students; while others which enroll comparable proportions of graduate students have allocated all, or virtually all, of the money to undergraduate students.

Among the 24 private AAU universities the programs in Federal Fiscal Year 1976 ranged in size from $74,000 spent aiding 142 students at Catholic University, to $2.5-million spent aiding 2,623 students at the University of Pennsylvania. The total amount of Work-Study funds spent at the graduate level ranged from $452 at the University of Rochester to $550,000 at Columbia University. In FY 1976, (Table 2) the Work-Study populations of Chicago, Yale and Columbia were each over 40% graduate students; 58% of Chicago's, 44% of Yale's and 41% of Columbia's Work-Study recipients were graduate or professional students. These universities also allocated large proportions of their Work-Study funds to these students. Chicago allocated 68%; Yale, 52%; and Columbia, 47% at the postbaccalaureate level.

In sharp contrast, among the private universities were the University of Rochester, Vanderbilt and Princeton, which in FY 1976 each reported awarding almost no Work-Study funds at the graduate level. Until last year Rochester and Princeton had awarded no Work-Study support to graduate students since 1968. In FY 1976, Rochester reported awarding Work-Study funds to one graduate student; Vanderbilt aided eight graduate students and Princeton aided 22 graduate students. Cal Tech, a small, well-supported research university, did not begin a Work-Study program until FY 1976.

The average amount spent per aided student also varies widely among the 24 private AAU universities. The average amount per undergraduate in a private university was $647. The range was from $395 at Tulane University to $932 at the University of Pennsylvania. The average graduate award ranged from $452 at the University of Rochester to $1866 at M.I.T. The average award to a graduate student in both private and public AAU universities, interestingly, was $902.

TABLE 1
THE RELATIVE SIZE OF AAU CWSP PROGRAMS, FY 1976

Private Universities	Rank	CWSP Spent Per Student Enrolled	Rank	CWSP Spent Per Graduate Student Enrolled	Public Universities	Rank	CWSP Spent Per Student Enrolled	Rank	CWSP Spent Per Graduate Student Enrolled
MIT	1	202.0	2	187.9	Oregon	1	90.7	2	79.1
Clark	2	169.1	1	224.1	U.C. - Berkeley	2	82.9	3	72.0
Penn. State	3	135.5	7	63.8	Colorado	3	76.8	10	35.3
Duke	4	109.5	5	90.5	U.C. - Los Angeles	4	71.3	1	102.6
Syracuse	5	104.2	8	58.6	Mich. State	5	56.1	18	18.6
Case West. Res.	6	101.6	9	43.8	Iowa	6	54.2	4	60.0
Cornell	7	91.7	11	34.9	Indiana	7	51.7	5	55.0
Columbia	8	88.6	6	67.3	Missouri	8	49.9	7	39.1
Yale	9	83.0	4	104.1	Nebraska	9	45.1	15	21.5
Princeton	10	79.1	17	9.2	Purdue	10	42.7	21	8.5
Brown	11	70.9	3	180.7	Michigan	11	42.2	12	32.1
Cal. Tech.	12	59.7	15	15.9	Wisconsin	12	42.0	14	29.1
Johns Hopkins	13	59.7	21	5.0	Ohio State	13	39.3	13	31.0
Southern Cal.	14	52.4	16	14.6	Virginia	14	38.7	6	49.9
Harvard	15	43.4	14	19.2	Washington	15	38.7	9	35.4
Tulane	16	137.0	10	38.4	North Carolina	16	37.6	16	20.1
Rochester	17	35.6	24	0.3	Minnesota	17	37.1	17	18.8
Chicago	18	31.7	12	32.6	Texas	18	34.2	8	37.5
Northwestern	19	29.5	13	20.2	Pittsburgh	19	25.4	19	14.0
Stanford	20	22.7	19	6.5	Kansas	20	21.5	11	33.8
Washington U.	21	22.2	22	3.9	Iowa State	21	21.0	20	9.6
Vanderbilt	22	15.7	20	5.2	Penn State	22	19.5	24	1.6
New York U.	23	13.2	18	6.7	Maryland	23	17.0	23	1.7
Catholic	24	10.6	23	2.7	Illinois	24	5.2	22	2.8
AVERAGE:		66.2		35.9	AVERAGE		41.6		34.9

$$\text{AAU Summary: } \frac{\text{Total CWSP Spent}}{\text{Total Enrollment}} = \frac{\$47{,}204{,}234}{987{,}827} = \$47.80$$

$$\frac{\text{Total CWSP Spent-Graduates}}{\text{Total Graduate Enrollment}} = \frac{\$9{,}755{,}973}{276{,}333} = \$49.70$$

TABLE 2
THE FEDERAL COLLEGE WORK-STUDY PROGRAM IN AAU UNIVERSITIES, FY 1976

Private Members

TABLE 2
THE FEDERAL COLLEGE WORK-STUDY PROGRAM
IN AAU UNIVERSITIES, FY 1976
Private Members

University	CWSP STUDENTS Total	CWSP STUDENTS Graduate No.	CWSP STUDENTS Graduate %	CWSP FUNDS SPENT Total	CWSP FUNDS SPENT Graduate Amount	CWSP FUNDS SPENT Graduate %	AMOUNT SPENT PER STUDENT Undergraduate	AMOUNT SPENT PER STUDENT Graduate	UNEXPENDED CWSP AUTHORIZATION	STUDENTS EMPLOYED On Campus	STUDENTS EMPLOYED Off Campus
Brown	554	121	22	437,068	190,840	44	569	1,377	27,988	389	184
Cal. Tech	168	17	10	80,823	9,072	11	475	534	0	168	0
Case Western Reserve	850	141	17	642,721	148,448	23	717	1,053	928	785	83
Catholic	142	25	18	74,095	12,610	17	526	504	1,332	142	0
Chicago	262	153	58	217,757	147,290	68	646	963	3,253	258	14
Clark	604	74	12	465,106	88,527	19	711	1,196	10,278	546	58
Columbia	1,323	542	41	1,172,148	549,737	47	797	1,014	3,968	816	507
Cornell	1,860	231	12	1,590,625	196,425	12	880	850	0	1,778	390
Duke	1,207	347	29	1,000,078	309,557	31	803	892	0	1,152	128
Harvard	703	214	30	548,889	155,414	28	805	726	0	426	277
Johns Hopkins	658	42	6	592,171	26,997	5	917	643	35,500	552	106
MIT	1,328	250	19	1,309,345	466,438	36	782	1,866	0	1,145	183
New York University	400	122	30	270,696	81,711	30	680	670	25	285	115
Northwestern	690	122	18	465,163	116,676	25	614	956	10,978	629	61
Pennsylvania	2,623	484	18	2,540,252	545,954	22	932	1,128	0	2,438	493
Princeton	586	22	4	423,013	10,440	2	732	474	0	512	268
Rochester	301	1	0	200,014	452	0	665	452	0	301	0
Southern California	1,510	201	13	1,302,102	172,335	13	863	857	424,970	1,459	51
Stanford	487	41	8	266,607	33,739	13	522	823	65,762	442	52
Syracuse	2,562	252	10	1,572,908	228,736	14	582	908	148,800	2,225	337
Tulane	577	105	18	297,625	111,065	37	395	1,058	29,031	472	132
Vanderbilt	187	8	4	98,916	8,283	8	506	1,035	10,262	180	7
Washington University	460	26	6	212,353	15,673	7	453	603	7,554	437	23
Yale	955	417	44	688,042	358,452	52	675	860	0	750	190
							Avg.				
TOTALS	20,977	3,958	19	16,475,115	3,984,850	24	674	902	780,689	18,294	3,666
										(100%)	(20%)

Source: USOE File Copies of Institutional Annual Fiscal Operations Report, FY 1976.

Among the AAU public universities in FY 1976 (Table 3), total Work-Study populations ranged in size from 424 students at the University of Illinois to 3,546 students reported by Michigan State University. The graduate student proportion of the Work-Study population varied from 1% at the University of Maryland and Penn State University to 39% or more at UCLA, Iowa and Virginia. Total Work-Study funds spent in FY 1976 ranged from $182,000 at the University of Illinois to $2,445,000, which aided 2,215 students, at the University of California at Berkeley. Michigan State followed Berkeley closely, spending over $2.3 million in Work-Study funds.

The proportion of Work-Study funds spent at the graduate level by the public universities varied from 1%, or $10,616, at Penn State University to 47%, or $1,031,000, at UCLA. The average amount spent per undergraduate student was $735, and the amount ranged from $418 at the University of Illinois to $1,382 at the University of Washington. The average amount spent per aided graduate student ranged from $507 at Illinois to $1,491 at the University of Minnesota.

In FY 1976, 31 private and public universities reported unexpended Work-Study authorizations including several universities which have small graduate Work-Study programs. There are numerous reasonable explanations for unexpended Work-Study authorizations, but it is at least interesting to note that $1.7 million was reported as unexpended by 18 public universities, and $781,000 was reported by 13 private universities. Two private and six public universities each reported over $100,000 in unexpended funds.

AAU Work-Study Policies

In view of this diverse experience, it is not surprising that the AAU universities' Work-Study policies governing the allocation of funds also vary dramatically. Section 175.9(1) of the Federal regulations, which were adopted last September, requires institutions to make Work-Study employment or equivalent employment "reasonably available to the extent of available funds to all eligible students in the institution in need thereof," and to give preference in awarding funds "to those of its students with the greatest financial need." In addition, the institutions are required to have a written student selection policy: "The institution's selection procedure shall be uniformly applied, set forth in writing, and maintained in the files of the institution's office which selects student aid recipients."

All 48 aid directors responded to the question which asked whether their university has a written policy which establishes selection procedures for awarding Work-Study funds to eligible undergraduate, graduate and professional students. Two-thirds of the private and one-half of the public university aid directors reported that they do not have written student selection policies, while eight private and 12 public university aid directors indicated that their award policy is in written form. One private aid director responded affirmatively and simply cited "The Federal guidelines" as his university's written policy.

Thirteen of the 20 aid directors who responded affirmatively also provided copies of their written policy statements.

TABLE 5
THE FEDERAL COLLEGE WORK-STUDY PROGRAM IN AAU UNIVERSITIES, FY 1976
Public Members

	CWSP STUDENTS			CWSP FUNDS SPENT			AMOUNT SPENT PER STUDENT			STUDENTS EMPLOYED	
		Graduate			Graduate						
University	Total	No.	%	Total	Amount	%	Undergraduate	Graduate	UNEXPENDED CWSP AUTHORIZATION	On-Campus	Off-Campus
U.C. - Berkeley	2,215	629	28	2,445,411	648,034	27	1,133	1,030	14	1,577	931
U.C. - Los Angeles	1,943	766	39	2,213,376	1,031,087	47	1,004	1,346	0	1,591	616
Colorado	2,265	201	9	1,640,437	145,574	9	724	724	111,004	1,076	589
Illinois	424	51	12	181,738	25,881	14	418	507	389,160	341	87
Indiana	2,894	577	20	1,484,300	331,290	22	498	574	35,189	2,440	564
Iowa State	729	40	6	445,873	32,434	7	600	811	0	693	36
Iowa	1,195	396	33	1,185,177	430,502	36	914	1,087	0	838	436
Kansas	631	154	24	382,414	102,612	27	586	666	11,354	631	0
Maryland	812	11	1	559,411	9,900	2	686	900	86,015	795	79
Michigan State	3,546	165	5	2,346,373	139,095	6	653	843	105,597	3,546	522
Michigan	2,174	391	18	1,642,741	408,485	25	692	1,045	140,997	2,032	217
Minnesota	1,748	114	6	1,682,349	170,027	10	926	1,491	0	1,491	257
Missouri	1,904	224	12	1,132,411	190,100	17	561	849	0	1,766	138
Nebraska	1,378	101	7	1,010,007	97,667	10	714	967	32,887	1,196	182
North Carolina	1,334	192	14	730,125	112,759	15	541	587	0	912	473
Ohio State	2,471	286	12	2,097,450	335,827	16	806	1,174	28,075	2,259	232
Oregon	2,151	339	16	1,536,766	268,934	18	700	793	78,219	1,714	437
Pennsylvania State	1,628	17	1	993,290	10,616	1	610	624	118	1,467	161
Pittsburgh	947	135	14	685,987	103,523	15	717	767	46,815	617	166
Purdue	1,924	41	2	1,115,320	30,374	3	576	741	46,692	1,881	552
Texas	1,550	292	19	1,458,608	330,825	23	896	1,133	66,783	1,268	282
Virginia	818	289	35	578,147	259,688	45	602	898	114,683	707	146
Washington	1,001	230	23	1,371,972	306,281	22	1,382	1,332	53,393	451	550
Wisconsin	2,937	325	11	1,809,430	249,608	14	597	768	348,394	2,227	775
							Avg.				
TOTALS	40,619	5,966	15	30,729,119	5,771,123	19	735	902	1,695,389	34,316	8,428
										(100%)	(24%)

Source: USOE File Copies of Institutional Annual Fiscal Operations Report, FY 1976.

Most of these documents were of two kinds: 1) either full or partial packaging instructions and formulas which counselors use to make awards or 2) general information materials typically distributed to interested students. One university provided a statement which was identified as a formally adopted university policy. The introduction read, "The financial aid packaging procedures for 1976-77 are based upon the approved policy of the university, drawn up jointly by the Office of Institutional Planning and the Office of Financial Aid and approved by the Deans, Vice-Presidents and President of the University. This packaging procedure will be utilized to make financial aid awards for the 1976-77 academic year."

The provisions of the written and unwritten policies governing the award of Work-Study funds to students, also vary widely. To illustrate, 11 private and 15 public university aid directors reported that they do not limit the use of Work-Study or give preference to students in the award of funds by academic level. Nine aid directors in public universities and 13 private university aid directors reported that they give at least some preference to students by academic level. Policies vary widely among them. For example, two major public universities reportedly prohibit entering freshmen from accepting a Work-Study job, but they give no preference to other students by academic level. Several, however, reported they give first priority to entering freshmen. Others reported making no distinctions between freshmen and upperclassmen, while favoring undergraduates over graduate and professional students.

Interviews with several of these aid directors revealed a variety of policy rationales. One private university aid director who reported giving graduate and professional students third and fourth priority for Work-Study funds said:

> "The whole focus and emphasis of this office is undergraduate aid. A few graduate students walk in for NDSL and Work-Study. The graduate school has become more active in seeking Work-Study, but we have inhibited them and have used it at the undergraduate level. We have needed it there.
>
> The graduate student aid is not sufficient. If the graduate school can latch on to Work-Study eligibility, it helps. . .I don't know what the graduate school does with its own money. We would be happy to include them if we had the Work-Study funds, but our primary focus would be to give an undergraduate a bachelor's education. That has been and will continue to be the focus of this office."

Another private university aid director explained,

> "Over the years, the graduate school has asked once a year if they could participate. We said, 'No, sorry,' and that was the end of it. The graduate school is in the dark ages in financial aid. They don't package aid, know student needs or have student budgets. Some day the light will come on in the graduate school. They conceivably could make strong arguments for looking into it, if you were talking about additional money. I could with six months work put work-study in the graduate school, but there are not many arguments to shift the pie to graduate school students. We have hosted Aid Directors' Meetings here and everybody does it differently."

A public university aid director explained:

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> "Basically the American Public has been conditioned to accept that we have an obligation to put students through undergraduate, but not graduate and professional school. Graduate students are older, married and want to be independent too. They have one degree and are working on another. They have salable skills and can get part-time jobs on their own, so they are not as dependent on Work-Study.
>
> The departments don't have much interest in undergraduates only in graduate students. Early in the program professors wanted to use Work-Study for assistantships, and we fought it.
>
> Those graduate students on the program have been those who could not get a job as easily as others, handicapped, or no skills, as a last resort. Most graduate students are on TA's, RA's and Fellowships. Unless we get more money, we'll keep it at the undergraduate level."

A public university aid director, who also considers academic level in the award of funds, explained a different policy:

> "We award Work-Study to students with highest need. All students regardless of year in school are eligible—Freshmen to Doctoral students are on the program. We award by computers and set perimeters by need. We rank freshmen need highest to keep them off loans. We change week by week, depending upon the amount available."

Congressional Intent

In interviews, 13 financial aid officers also discussed their understanding of how Congress intended institutions to implement the program. Together their comments reflect unclear and conflicting perceptions of Congressional intent concerning the purposes of the program, particularly as they relate to graduate and professional students. One can obtain totally conflicting interpretations of the Program's purposes and of Congressional intent among those who award funds based on academic level and among those who do not. One public university aid director, who awards Work-Study by academic record said:

> "I don't think Congress did intend it to be used by graduate students. That has been developed by graduate departments in the graduate community. I never saw anything that indicated that Congress intended it; I never received direction from Congress or HEW which would have influenced our direction. There is nothing specific in the law in this; I don't recall anything in the law."

A private university aid director, who administers a large graduate Work-Study program, explained it differently:

> "Congress likes the Work-Study Program. They don't talk about doing away with it, while they do about grants. The work ethic is very good. I get the feeling that they would rather have students work for an education than be given funds, unless the student is at the very bottom of the income scale. There are no guidelines on undergraduate-graduate proportions, but I really believe institutions must have the flexibililty to use it in light of their needs. I see nothing in the literature which would show that Congress didn't intend Work-Study for graduate and professional students."

Despite the variety in interpretation, interest in using Work-Study at the graduate and professional level has grown rapidly in recent years, especially among private universities. In their 1976-77 applications for funds several private universities, including Brown, USC, Yale, Northwestern, Harvard and M.I.T., explained at some length their increased reliance on Work-Study for needy graduate and professional students.

CWSP Policy Making

Turning to the next question, how are university Work-Study award policies established? Who decides on behalf of the university how funds will be allocated and which students will receive them?

The literature which attempts to describe universities as organizations has viewed them from several different perspectives. Universities have been described as collegial communities operating by consensus, as political systems where policies are set by traditional political processes, and as large bureaucracies where individual bureaucrats make policy in light of their professional expertise. Universities even have been analyzed as "organized anarchies".

Most AAU universities seem to have implemented the College Work-Study program in near classic professional bureaucratic fashion. In most universities, professional student aid officers appear to set policy determining how the university's Work-Study funds will be allocated and which students will receive them. Implementation of the program seems to have been delegated in most universities almost entirely to student aid directors and their staffs. They have established the university's Work-Study policy, and they have done so, they report, relatively free from the influence of others, including university heads, senior administrators, deans, faculty and students. Working in light of their own professional expertise and personal educational philosophies, they have determined how funds will be allocated and whether individuals, or groups of students, including graduate and professional students, will be awarded Work-Study funds.

Despite the assurances presented by various higher education witnesses before Congressional committees over the years, the program seems to have been implemented by the professionals in most universities without the guidance of a broader institutional policy framework. In most universities, aid directors report that Work-Study award policy is established by informal groups of administrators, most members of which are identified as student aid staff. In nine universities, aid directors reported that policy is set by a formal university committee. During interviews, however, five explained that their committee has never discussed graduate student use of the program and instead has left this question to the aid officer.

Student aid directors and staff in both public and private universities frequently expressed uncertainty about the financial aid resources, programs and philosophies of their university's graduate and professional schools. Many aid officers reported little communication between their offices and the graduate and most professional schools. Several expressed a sense of wonderment at the rudimentary state of student financial aid administration in the graduate schools. (Parenthetically, it is interesting to note that this concern has also been expressed by the AAU graduate deans in a 1976 report to the heads of the

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AAU universities, titled, "The Research Doctorate in the United States".)

One private university aid director assessed his university's general awareness of Work-Study in blunt terms:

> "This university is typical. The graduate school is a lot of fiefdoms. The graduate office has no idea of graduate student needs, they just know they need money. They have no idea of what they could do. I am surprised at the ignorance of the graduate schools and their deans.
>
> The Vice-President of Finance, Comptroller and Chancellors here, and at other universities I know, make a big deal of going after $50,000, but the higher administration doesn't know the value of this program. They're good at speaking of indirect costs – they have that cold – but they ignore this. The university commitment is not there, the program and policy has percolated up from the financial aid office. Maybe that is because it is student aid, but we are not talking peanuts."

A public university aid director, who has a large graduate Work-Study program, explained quite a different situation:

> "From the beginning of the program, the deans have known Work-Study is available. It is true down to the department levels; all of them are aware of it. Each year they want to know whether sufficient funds will be available. I inherited the policies of my predecessor who left several years ago. His advice to us was to use it for all students without distinction. I could not shift the university policy now if I wanted to because everyone is aware of it."

He also was concerned about the attitudes of his fellow aid officers.

> "I have other financial aid colleagues who say they give no funds to graduate students. They don't want anything to do with graduate students. I don't know how they do that. It seems illegal to me. They probably include graduate students in their applications for aid. We have never hidden it here, but one way to avoid aiding graduate students is to keep deans, chairmen and others uninformed."

Interviews with school deans and faculty confirmed that many are either unaware of the program or feel that it is solely intended for undergraduates. On several occasions I was asked to begin a conversation by defining the Work-Study program and by describing its terms and conditions. One graduate dean in a public university which awards a very considerable amount of Work-Study money to graduate students responded typically:

> "I can't tell you much about it. I'm not much aware of it. It is handled entirely from another office. I have no idea what the financial aid director uses to supplement our aid. I have never talked to him about it. If we are ranked so highly in the nation, our department chairman must be aware of it. I just wonder who provided the impetus. It just has not been a part of my life and I am really quite surprised."

Of course, not all deans are uninformed concerning the program. A public university graduate dean explained:

> "I can't remember the policy ever being discussed since it was originally established. However, from the beginning of the program, graduate students were eligible and could participate in Work-Study. With the growth in graduate assistance for graduate students, I brought in an associate dean for financial aid who was a "hustler". He got out there and scrambled for funds. We wanted our cut of Work-Study too."
>
> Then he added, "I have argued with several graduate deans about this who told me that graduate students were not eligible for Work-Study. They have been told by their aid officers that graduates are not eligible. In fact, one argued with me that it was illegal to give Work-Study to graduate students."

It is also significant to note that 31 of 45 graduate school catalogs reviewed did not identify Work-Study as a source of graduate student aid.

The explanation for this diversity of experience seems to include at least these factors:

First, until recent years many universities simply did not need Work-Study funds at the graduate and professional levels. The traditional and more prestigious forms of aid, fellowships and traineeships, were readily available and many departments provided full support for all students admitted. Some could afford to actively discourage the use of other funds. This has been particularly true in the sciences. But times have changed and some institutional and faculty attitudes and philosophies concerning graduate student support are changing out of necessity.

The explanation also stems from each university's definition of the role and responsibilities of its student aid office. Some aid directors have been formally assigned, or at least tend to perceive their role as servant, exclusively or predominantly, to undergraduates. Following what some refer to as a "first degree" philosophy, some aid directors serve graduate and professional students on an exception basis only, or for limited purposes such as certification of guaranteed student loan applications. Some tend to assume that graduate and professional schools adequately provide for their students, and that as recipients of one degree these students should not need further aid. Many graduate and professional schools simply have not challenged such assumptions, and communication between them and their university aid office frequently seems constricted at best. Conflicting, foreign worlds frequently seems an apt characterization for the relationship.

Work-Study as Graduate Student Support

Despite the dramatic differences in their policies and programs, the student aid directors and graduate and professional school deans with whom I talked, are virtually unanimous in the opinion that the Work-Study program could function very well for graduate and professional students. Thirty-one of the 48 aid directors favored an increase in the use of Work-Study at the graduate and professional levels; 11, including some who already administer large graduate programs, opposed an increase and six public and one private aid director professed indifference. Many of those who supported an increased graduate program, however, stressed that additional funds would be required. They emphasized that they would resist vigorously attempts to shift funds from undergraduate to graduate students.

During the 1975 House hearings some witnesses were concerned that the provision requiring support of those students who demonstrate "the greatest financial need" might transform Work-Study into a predominantly graduate and professional aid program. A majority of aid directors, however, disagreed with that interpretation.

Many also feel that the program works better at the graduate level. Graduate and professional students reportedly hold Work-Study jobs which are closely related to their academic programs much more frequently than do undergraduates, primarily because they are more highly skilled. Contrary to some expectations, graduate and professional students also work longer hours. In almost all universities they reportedly worked about 15 hours per week, two or three hours per week more than undergraduates.

Some preliminary conclusions also were possible with regard to the distribution of Work-Study graduate and professional students by field and school. Graduate students, although frequently in small numbers in 1974-75, were aided with Work-Study funds in virtually all disciplines and at all program levels, from first year of studies through the dissertation year. It is not surprising that over 60% of the graduate students reported were pursuing humanities and social science programs where funds are especially scarce. Many fewer students were reported in the relatively more affluent biological and physical sciences.

Among the professions 39% of the students reported by 16 private universities, and 27% reported by 16 public universities, were law students. One aid director typically explained the aggressiveness of law students and their schools. He said, "It is a rare week that I'm not threatened by a law student with a law suit over *his* Work-Study money."

The number of professional school students aided is still low, but it could be prophetic to note that some universities such as Columbia, Indiana and Iowa, in 1974-75, supported students in several professional schools including medicine, dentistry, nursing, engineering, education, business administration, social work, allied health, optometry and others. Provided sufficient funds are available, the trend in many universities, particularly private universities, is clearly toward rapid, substantial expansion in both graduate and professional schools.

Conclusions

There are two points to be made in conclusion: the first concerns the universities, and the second, the Congress.

The diversity in Work-Study programs, policies and practices among the universities should surprise no one who is reasonably familiar with universities as organizations. Only the utopians still really believe that all important institutional policies are established by collegial consensus. And most also know from experience what influence academic politics can have on the development of programs, schools and institutions. But the routine decisions made by individual professional administrators also are very important, and they have escaped thoughtful attention and analysis. It would be more cumbersome, but perhaps it also would be more precise to suggest that we begin to think theoretically and analytically of universities as "large, complex, highly decentualized organizations of academic *and* administrative professionals". It is the professional autonomy of expert administrators which shapes so many of the university's internal policies, and many of the policies of the national higher education associations. Left on their own, with inadequate program guidance from federal program officers – and there seems to be general agreement on that point – and with little or no overarching institutional policy to guide them, many, perhaps most student aid directors necessarily have formulated their own formal or informal policy to administer the program. This is not objectionable. It is unavoidable. The student aid profession and the major institutional associations have long defended institutional and professional discretion to the Congress.

But there does seem to be, in many of the nation's leading universities, an unusual, and perhaps imprudent informality in the policy structure. The report of the Association of Graduate Schools described the situation this way:

> "Given that support for graduate students springs from so many different rationales, serves so many different functions, and is distributed within universities with so little coherent policy, it is not surprising that on occasion the fundamental purpose of it all gets lost. The cumulative effect of these diverse practices is in many universities a non-system of student support that can be justified only on the grounds that it exists."

In these days of heightened sensitivity to the need to be accountable for public funds and to consumer interests, one wonders how well current university policies and practices would fare if they were subjected to scrutiny of Congressional committees or the Government Accounting Office. Additional legislation or regulations governing the administration of the Work-Study or other aid programs are not, or should not, be necessary. But, if institutions do not pay more careful attention to these policies and their implications, they may invite a Congressional reassessment of the concept of professional discretion and institutionally based program administration.

The AAU Graduate deans have offered a reasonable suggestion:

> "Our general judgment is that every university should keep a careful eye on its student support policies, and that a strong case can be made for exploring in detail the relevance of financial need to every form of aid. We recommend that all universities put together a financial aid package that is consistent with the kinds of support available, and with the student's financial need and personal circumstances as well as their scholastic ability and career goals. Under such an arrangement the extent to which need affects the amount and kind of financial aid will continue to vary widely from field to field and university to university. This is not objectionable. What matters is that financial aid decisions be based on reasonable criteria consistently applied within each institution;
>
> All in all graduate support policies would be more logical, equitable and economical if there were a greater degree of institutional awareness, and prompt attention to correct anomalies. This requires a central mechanism

> with university wide authority to review current practice, consider the underlying issues, and make generally binding decisions. The capacity of some institutions to define and administer student support policies is weak."

Such strong university-wide mechanisms are necessary if a sense of order is to be imposed on university aid policies and programs. Otherwise the programs will continue to be vulnerable to attack by students, particularly graduate and professional students, and perhaps by the Congress.

This leads to a concluding point: If Congress were now to debate whether to make graduate and professional students eligible for the Work-Study program, I expect there might very well be a different outcome. Interviews with several key House and Senate committee staff members left the unmistakable impression that, if given the opportunity, some now would flatly oppose the award of Work-Study funds to graduate and professional students. Others would be cautious at best. A key House committee staffer summed it up.

> "Graduate education has just not been a matter of concern over the last six to seven years. The members are not aware of graduate and professional education. Congressional attitudes are conditioned by what they hear in their districts and they don't hear much from graduate students. They, therefore, don't sense a great crying need out there for more funds, including Work-Study funds, for graduate students. If Work-Study funds shifted out of some states to others with greater graduate student enrollments, or if it were claimed that undergraduate needs weren't being met, a political issue would arise. Proceed cautiously."

Another staff member said graduate education is frequently described by members and staff as "removed, esoteric, foolish and unimportant." It is, in his opinion, particularly subject to harsh attacks on the House and Senate floors. Therefore, if given the opportunity he would advocate Work-Study aid for graduate and professional students only in selected and highly focused manpower shortage areas.

Not all staffers, however, held that view. One influential staffer said: "I would be interested to know if universities with unmet graduate need are returning Work-Study unspent. If so, we should kick some butts."

Political support for Work-Study as a graduate and professional aid program has been diminished by the generally unfavorable Congressional mood regarding Federal support for graduate students. But, as one staff member pointed out. "Legislatively, Work-Study for graduate students is a dead issue. The law is written to allow institutions to do it and they may do so — provided others don't begin to complain that poor kids are losing Work-Study funds to rich graduate students."

The task ahead for universities is to inform their Congressmen and Senators, and particularly those members of the authorizing and appropriations committees, of the continuing value of Work-Study for undergraduates and of the growing need and potential among graduate and professional students. It is a story which remains to be told effectively to the Congress. Most members of Congress have been elected since Work-Study was established. Over half the members of Congress have been there six years or less. Few know the program's history. The only members to hear direct testimony on the graduate and professional aspects of the program, Congressmen O'Hara and Dellenback, have left the Congress. If Congressional champions are not found, the graduate and professional dimensions of Work-Study could be endangered precisely at the time of their greatest promise.

ATTACHMENT B

Association of American Universities

Office of Federal Relations

June 2, 1978

The Honorable Ernest L. Boyer
Commissioner of Education
Office of Education
400 Maryland Avenue, S.W.
FOB-6, Room 4181-D
Washington, D.C. 20202

Dear Dr. Boyer:

Final regulations for the Federal College Work-Study program, we understand, are now being processed by your staff. We are writing to ask that the regulations be amended to permit universities the option of compensating graduate and professional students on a salary basis. Current regulations require that students aided with work-study funds be paid hourly wages. Time cards, or comparable record-keeping and reporting mechanisms, must be used by students and work reports must be certified by their supervisors.

Undergraduate students typically hold work-study jobs in libraries and food service departments where hourly wage reporting is reasonable and appropriate. For them current regulations and time-keeping systems are entirely satisfactory. Many graduate and professional school students, however, are employed as junior professionals; they often are colleagues to faculty and serve as teaching and research assistants. For many of these students and their faculty supervisors, hourly time reporting is an impediment to the use of the work-study program. The requirements are burdensome and impractical and they are generally held to be inappropriate for junior professionals serving in academic positions. In these cases, the use of the work-study program would be eased if universities, within the limits of proper supervision and accountability, had the option to compensate graduate and professional students, where appropriate, on a salary basis.

To take account of the special circumstances posed by graduate and professional students we suggest the deletion of the word "salary" in the second section of 175.19(a) and the addition of the following new sentence:

> "Work by graduate and professional students which is otherwise eligible employment is not made ineligible solely because compensation is on a salary basis."

The Honorable Ernest L. Boyer
Page Two
June 2, 1978

The associations listed below join in this letter and urge that the final regulations be modified to incorporate this change.

Sincerely yours,

John C. Crowley

John C. Crowley
Director of Federal Relations
for Science Research

American Association of State Colleges and Universities
American Council on Education
Council of Graduate Schools in the United States
National Association of State Universities and Land-Grant Colleges

JCC:vm

ATTACHMENT C

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

JUN 29 1978

Mr. John C. Crowley
Association of American Universities
Office of Federal Relations
Suite 730
One Dupont Circle
Washington, D.C. 20036

Dear Mr. Crowley:

Thank you for your letter requesting that the regulations for the College Work-Study (CWS) program be amended to allow payment on a salary rather than hourly basis for graduate and professional students.

The statute describes the CWS program as a program of part-time employment. We feel that it is both usual and customary to pay part-time employees an hourly rate for actual time on the job.

Concerning your suggestion that graduate students be paid on a salary basis, while undergraduate students apparently would not, there is no statutory rationale for unequal treatment of this nature. The statute makes undergraduate, graduate, and professional students all equally eligible for CWS funds. It also provides that employment under the program must be made reasonably available to all needy students in the institution and that preference for employment must be given to the neediest students.

However, the next time we revise our regulations, your suggestion will be given every consideration.

Cordially,

Ernest L. Boyer
U.S. Commissioner
of Education

STATEMENT OF JOHN CROWLEY, DIRECTOR, FEDERAL RELATIONS FOR SCIENCE RESEARCH OF THE ASSOCIATION OF AMERICAN UNIVERSITIES

Mr. **Crowley**. Thank you, Mr. Chairman. My name is John Crowley. I am director of Federal relations for science research of the Association of American Universities.

It really is in my former incarnation as a graduate student that I will be speaking to you this morning about the use of the Federal College Work-Study Program for Graduate Students.

In 1977, I completed a research project on the use of the Federal College Work-Study Program for Graduate and Professional Students by the 48 American universities which are members of the Association of American Universities. A published summary has been provided to the committee.

I will restrict these remarks to a brief review of recent trends in the support of graduate students and of my conclusions from that research project.

In the years since the passage of the Higher Education Act of 1965, the Federal role in graduate education and in the support of graduate students has been eclipsed by the need to address pressing needs for undergraduates.

I think it has been forgotten that graduate students account for 10 percent of total enrollment in colleges and universities. The extensive Federal fellowship and traineeship support that was available during the early 1960's has largely disappeared. While some Federal funds remain available for doctoral students, most of these are limited to advanced graduate students in the sciences who work as research assistants to faculty on funded research projects.

Other options are limited. Graduate students are ineligible for grant funds under both the BEOG and the SEOG programs, although I do believe a strong case can be made for a limited change that would allow SEOG recipients who are admitted to graduate and professional schools to be eligible for SEOG assistance through at least the first year of graduate study.

The graduate and professional opportunities program authorized under title IX is a small program targeted on racially and ethnically underrepresented populations. In 1978-79 only $8 million was available to make just 350 awards of $3,900 each. If the $15 million requested in 1980 is appropriated, this still will equal only a small fraction of the sum available for BEOG's. Institutional funds and funds from private agencies do provide some support, but private sources of support have also diminished.

In the face of this, Federal graduate student financial aid policies now force many graduate students to rely most heavily on loans. As a result, the number of students borrowing to finance their education has substantially increased between 1971 and 1975. The proportion of total dollar volume of guaranteed student loans awarded to graduate students in that period jumped from 11 percent to 18 percent.

According to the 1971-76 data of the National Research Council's doctorate record file, the number of students using loans as their most important financing sources has steadily increased.

As a result, the cumulative debt burdens of graduate students are growing significantly. Graduate students now seem to be expected to incur debts in amounts that strain their means. The present maximum that a student may borrow under the GSL and NDSL programs combined is $25,000, but it has been calculated that a beginning professional, with a salary of about $15,000—an assistant professor, for example—cannot reasonably be expected to service a loan in excess of $8,000.

Many graduate students complete their undergraduate educations with substantial debts of several thousand dollars. They then can afford to borrow only a small additional amount to help finance their graduate degree before exceeding a reasonable or manageable debt limit.

Prospective arts and science graduate students typically face difficult financial situations compounded by several factors: high expenses for undergraduate education, low or nonexistent student earnings and assets, families unable or unwilling to contribute to the graduate education of their children, no access to grant funds (BEOG or SEOG), limited Federal fellowship opportunities, constricted academic career opportunities, and low salary prospects for the successful new faculty member.

All of this is compounded by the substantial foregone income that results from up to 6 or more years of graduate or professional training.

Consequently, the financial prospects facing a talented prospective graduate student in arts and sciences frequently are forbidding. The system seems now to favor those who either have the necessary financial resources or who can borrow in substantial amounts.

Many students fear, or simply cannot incur a major debt. Administrators working with these students know that this seems to be true particularly for students from low-income backgrounds.

The case for the Federal role in graduate education today rests not on the arguments of the sixties for the production of steadily increasing numbers of highly trained individuals, but on the need to provide for continued access and free choice for the Nation's most intellectually qualified.

Graduate education is not viewed as an entitlement; no one should, I believe, argue that everyone has a right to go to graduate school, or that there should be a graduate equivalent of the BEOG program.

Nor should we, under current circumstances, argue that total enrollments should be increased and that more students should be going to graduate schools. Proposals have been made to this committee to extend eligibility for student assistance programs to students enrolled in undergraduate programs on a less than half-time basis. That may be a desirable change in public policy.

I would argue, however, that it is at least as much in the Nation's interest that individuals who are pursuing a graduate degree be our most intellectually able and not our most financially able.

This country's system of financial assistance should provide for the needy among those who have the ability to pursue advanced studies and training and who will become the Nation's leaders in the arts, sciences, and the professions.

One small, but effective way to address a part of the problem is to make some needed adjustments in the administration of the work-study program that would encourage its use for graduate and professional students.

RECOMMENDATIONS—A REAFFIRMATION OF INTENT

From the time the work-study program was created in 1964 as part of the Economic Opportunity Act, the law has made undergraduate, graduate, and professional students eligible for the funds. Thousands of graduate students have received work-study funds. Many work in jobs directly related to their studies. Over the years, the number of graduate students receiving work-study assistance while small, has steadily increased.

According to a 1977 report by the American Council on Education, in 1976-77, 5 percent or 35,000 of all work-study recipients (698,000) were graduate students. In public universities, 10.8 percent of work-study students were graduate students and in private universities 16.7 percent of students receiving work-study were enrolled in graduate and professional programs.

The growth in the use of the program at the postbaccalaureate level is encouraging, but much remains to be done to inform students, their graduate and professional schools and others of the availability and potential of this program and to encourage Federal program administrators to foster the use of the program for graduate and professional students.

Therefore, I would urge the committee to include in its report a strong reaffirmation of the role of the work-study program for graduate and professional students and to encourage graduate and professional schools and student aid officers to develop the untapped potential of the program. This committee should encourage Federal program managers to take the steps necessary to enhance the use of the program for these students.

A strong reaffirmation by this committee of your intention in this area I believe would make a difference. It is fair to say that despite a law which clearly states that graduate and professional students shall be eligible for work study and a long, clear congressional record of support for the program, confusion remains among graduate and professional students, their schools and student financial aid administrators. A restatement of congressional intent for this dimension of the program would be timely and helpful.

PAYMENT ON A SALARY BASIS

Second, I would urge the committee to direct that the regulations—section 175.24(a)—be amended to permit universities the option of compensating graduate and professional students on a salary basis. Current regulations require that students aided with work-study funds be paid hourly wages.

Time cards or comparable recordkeeping and reporting mechanisms must be used by students and work reports must be certified by their supervisors. This causes institutions to restrict work-study employment to less than professional jobs and to construct convoluted nonstandard payment procedures for compensating graduate students with work-study funds.

Not all, but many undergraduate students hold work-study jobs in libraries, food service departments, and similar activities where hourly wage reporting is reasonable and appropriate. For them, current regulations and time-keeping systems are entirely satisfactory. But many graduate and professional students are employed as junior professionals. They often serve as colleagues to faculty and serve as teaching and research assistants.

For many of them and for their faculty supervisors, hourly time reporting is an impediment to the use of the program. It just doesn't fit the circumstances of their employment, or their relationship with their supervisors. The hourly requirements are burdensome and impractical and are generally held by graduate and professional schools to be inappropriate for junior professionals serving in administrative, teaching or research-related positions.

The use of the work-study program at the graduate and professional levels would be used if universities were given the option in the regulations to compensate graduate and professional students, as appropriate, on a salary basis. Of course, reasonable certification of effort and performance should be required.

It would be appropriate to require periodic, perhaps term, certification from faculty supervisors stating that assisted students have satisfactorily fulfilled professional responsibilities for which they were receiving work-study compensation.

Last year several higher education associations made this recommendation to Commissioner Boyer. The Commissioner declined to make the change because, he replied, "there is no statutory rationale" to differentiate between undergraduate and graduate students.

For your information, a copy of our letter to him and the Commissioner's response has been given to your staff. I hope the committee will provide the statutory basis for this technical change in the regulation. No other change would do as much to ease the use of the program for graduate and professional students' need.

NEED

Third, because many graduate students find themselves unable to call on already strained family resources in financing their advanced education, it may be appropriate to provide the flexibility in the law to allow graduate students to receive work-study assistance, when funds are available, without regard to need.

While the law should retain priority for undergraduate and graduate students with the greatest financial need, it would enhance the use of the program at the graduate and professional levels if work-study funds were available to graduate students without regard to need where appropriations are sufficient.

A specific proposal on this point has been presented to the committee by the Association of American Universities, the Association of Graduate Schools and by the Council of Graduate Schools. I urge the committee to give it careful consideration.

Mr. Chairman, I want to thank you for the opportunity to present these views to the committee. I know that this committee has been a particularly strong advocate of the work-study program since it was created.

The program has been a favorite of the Congress; the legislative record shows that clearly and it does seem to me that the program continues to offer substantial untapped potential for the future.

It also offers valuable educationally related work experience to graduate and professional students which enhances their future employment prospects. Law schools and their students learned this early in the program, and law students now are the single largest group of students aided by the program among professional schools.

The experience of the first 12 years clearly demonstrates that the program has an important role to play for graduate and professional students. I urge the committee to sustain your support for the program and to provide an authorization sufficient to meet the needs of both undergraduate and graduate students.

I will be happy to respond to your questions.

Mr. Ford. Reverend Driscoll.

[Prepared statement of Reverend Driscoll follows:]

PENNSYLVANIA ASSOCIATION OF COLLEGES AND UNIVERSITIES
800 NORTH THIRD STREET • HARRISBURG, PENNSYLVANIA 17102

June 7, 1979

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TO: The House Special Subcommittee
On Postsecondary Education

BY: The Pennsylvania Association of
Colleges and Universities
The Reverend John M. Driscoll, O.S.A., President
James A. Ream, Executive Director

RE: Title IV, College Work-Study Program
Reauthorization

We are pleased to have an opportunity to testify concerning the reauthorization of this excellent program. It proves especially valuable to students in the State of Pennsylvania. Not only are needy students able to receive excellent earnings through summer and term time employment, but also they can receive excellent career related experience in the program run cooperatively by our institutions and the Pennsylvania Higher Education Assistance Agency.

The changes we suggest to improve the College Work Study Program are as follows:

Sec. 442 (a) and (b). Allotments to States.

We do not believe this section detailing the State Allotment Formula can or should be changed at this time. There is widespread acceptance of the fact that the formula is not currently as equitable as it could be. We think this section should be reserved for revision in the next two or three years on the basis of documented state need based upon data accumulated from the tri-partite applications. Every institution should be required to file a complete tri-partite so the necessary data can be amassed.

Sec. 444 (a) (1).

Add language to this section to permit contracts with profit making business and industry as a way of expanding the employment opportunities for students. A higher rate of participation should be required from the profit making segment. (See (6) below).

Sec. 444 (a) (4). Add the following language:

"Further, nothing in this Act or other Acts shall prohibit or abridge a student's right to continue to serve an institution on a voluntary basis where said student chooses to do so for the benefit of experience to be gained or a desire simply to be of service."

The 1978-79 Student Financial Aid Handbook, page 6-6, Section 5, Voluntary Services states:

"The Fair Labor Standards Act of 1938, as amended, prohibits a covered employer (including educational institutions) from accepting voluntary services from any paid employee. Therefore, any student who is employed under CWS must be paid for all hours worked. (Contact the nearest office of the Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, for information regarding voluntary services of institution employees)."

We believe this to be a misapplication of the wages and hours law since students under work-study are part-time employees, limited by their need in the hours they can work, and in many cases, limited by the availability of work-study dollars. Yet students frequently wish to continue to work for the experience to be gained and/or a sincere desire to serve their institution. It is wrong to abridge their right to exercise this option.

Sec. 444 (a) (6).

Change the language in this section to reflect a different percent participation by profit making business and industry:

"Provide that the Federal share of the compensation of students employed in the work-study program in accordance with the agreement will not exceed 80 percentum of such compensation for students employed by governmental or private non-profit agencies; and will not exceed 50 percentum of such compensation for students employed by profit making enterprises; except that . . ."

We believe the 50 percent rate to be reasonable. It should induce business and industry to offer a wide range of job opportunities to students while not overtaxing already limited funds.

Sec. 444 (a) (8).

Move the wording of the present (8) down to (11). Insert new language in (8) as follows:

"Students shall be paid not less than the legally authorized subminimum wage for on-campus employment, and not less than the current legal minimum wage for off-campus employment."

We believe this provision will eliminate some confusion that has existed concerning variations in wage rates.

Sec. 444 (a) (9). Add a new provision.

"All wages earned by students under the work-study program shall be exempt from federal income tax. It is further hoped that state and local governments may follow suit and also exempt these student aid funds from taxation."

We believe it to be a bit ludicrous to allocate tax dollars to help students meet their costs of education and then reduce them by taxation.

Sec. 444 (a) (10). Add a new item.

"Institutions may spend forward or backward across the end of the fiscal year in order to maintain the continuity of student summer employment. Each participating institution should adhere strictly to the NIH cash request procedure, drawing down their federal work-study funds one month in advance to meet their estimated needs."

This procedure will greatly simplify administration of the program. It will make it possible to serve student needs far better than we are now able to do. In addition, it will allow the Commissioner to de-obligate and redistribute authorizations from those institutions not fully utilizing their authorizations to ones in need of additional funds early in the fiscal year.

Sec. 444 (a) (11) previously (8).

Sec. 446 (b). Add the following language:

"The Commissioner shall monitor the status of the NIH authorization balances in conjunction with the Fiscal Operations Reports in order to make such reallocations at the earliest possible date. Announcements of reallocations should be made to participating institutions no later than December 31, each year."

Monitoring the NIH authorizations will reveal those who do not adhere to the mandated system. It will also alert the Commissioner to potential under expenditure early in the year.

The privilege of spending across the end of the fiscal year will minimize the need for after the fact de-obligations based on the fiscal operations report. Previous year under-expenditures of more than 10% can be immediately deducted from the current year allocation and reauthorized to other institutions.

STATEMENT OF REV. JOHN M. DRISCOLL, O.S.A., PRESIDENT, VILLANOVA UNIVERSITY, AND PRESIDENT, PENNSYLVANIA ASSOCIATION OF COLLEGES AND UNIVERSITIES

Reverend DRISCOLL. Thank you. I am John M. Driscoll, president of Villanova University. I am also president of the Pennsylvania Association of Colleges and Universities—PACU.

It is in my capacity as president of PACU that it is my privilege to appear before you to testify on behalf of the 119 public and private colleges and university presidents in the membership of the Pennsylvania Association of Colleges and Universities.

We are indeed pleased to have this opportunity to testify concerning the reauthorization of the college work-study program. It is excellent. Congress is to be highly commended for developing this important student aid program.

The work-study program is especially valuable to needy students in the Commonwealth of Pennsylvania. Not only are needy students able to receive excellent earnings from summer and term time employment, but also they can receive valuable career related experience in the program run cooperatively by our institutions and the Pennsylvania Higher Education Assistance Agency.

The changes we have suggested in our formal testimony are keyed to the sections in the existing act.

We did not address the question of authorized appropriations. We believe others will have a better handle than we on the national need for these funds.

We urge, however, that careful consideration be given to adequate funding of this program and that authorized increases be keyed to expected increases in such factors as minimum wage and the rising cost of college attendance.

I will refer to the sections of the act in terms of our recommendations.

Section 442 (a) and (b). This section deals with the allocation of college work-study funds to each State. We believe the present formula to be unfair to some States. We urge that within the next 2 or 3 years that this section be revised to allocate funds to States in terms of their needs as established by the tripartite applications.

We urge that all institutions be required to complete the entire application so adequate data can be compiled from which to devise a new and more equitable system of allocation to the States.

Section 444(a)(1). We have suggested that language be added to permit placement of students in jobs with profitmaking business and industry. This should increase the number and variety of job opportunities available to students. We suggest a higher rate of financial participation by business and industry as a way of rationing limited funds.

The point was made earlier that this cannot be done at the expense of existing full-time and part-time jobs on the part of nonstudents.

Section 444(a)(4). We have suggested that language be added to permit students who wish to do so to continue to work voluntarily when they have exhausted their awards or the Federal funds have been used up.

Section 444(a)(6). This is the part which deals with the percent of Federal dollars used in paying student wages. We have suggested additional language calling for not less than 50 percent participation by profitmaking business and industry.

Section 444(a)(8). Here we suggest the existing language be renumbered as 11, and substitute a provision specifying hourly rates in the program as the legal subminimum on campus and the current minimum wage, off campus.

Obviously, this is developing this morning as a point worthy of discussion. I listened very carefully to the testimony given here and the points made and they are indeed well taken. However, I do suggest that it is not so much a question of who is being benefited by the work-study program, the institution or the student.

I think students sometimes tend to forget that institutions exist for the benefit of the students and if some of these institutions are to survive in order to further assist students, then their legitimate interests and concerns should be carefully taken into consideration.

Section 444(a)(9). We suggest the addition of a new provision exempting these student aid funds from Federal taxation. We believe it makes very little sense to use tax dollars to aid students and then reduce the dollars by the impact of taxes.

Section 444(a)(10). This is a new provision permitting spending forward and backward across the end of the fiscal year. This is a major change that will permit institutions to maintain the continuity of their employment programs. It should also facilitate reallocation of unused funds within States.

Section 446(b). We suggest the addition of language that the Commissioner shall monitor the status of NIH authorizations so as to initiate early reallocation of unused work-study funds within each State. We have specifically suggested that he be required to make the reallocations by December 31, each year.

Thank you for this opportunity to testify concerning this important student aid program. We believe our suggestions can help make a good program even better.

I hope that my words were not too strong.

Mr. Ford. Thank you very much.

Franklin Matsler.

[Prepared testimony of Mr. Matsler follows:]

aascu

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TESTIMONY

of

Dr. Franklin G. Matsler
Executive Director, Board of Regents of State Colleges
Springfield, Illinois

on behalf of

The American Association of State Colleges and Universities (AASCU)

Subcommittee on Postsecondary Education

House Committee on Education and Labor

June 7, 1979

Amendments to the College Work-Study Program

Allan W. Ostar, Executive Director

The American Association of State Colleges and Universities (AASCU) believes that one of the most important single priorities in federal student aid legislation is to amend the highly successful College Work-Study (CWS) program, to make the program more flexible. We believe Congress should extend eligibility in the program to more middle-income as well as lower-income students, and convert the program in part into what might be called "a national co-operative education program" which combines work experience and learning.

Here are several recommendations which we believe will help achieve these ends.

1. Extend eligibility to more middle-income students. We believe that it is essential to provide CWS funds first to take care of students with "documented need" under the present program—not only full-time undergraduate students but part-time and graduate students, who are eligible now, but whose needs are not always fully met. In a survey of 200 state colleges and universities conducted by AASCU in the fall of 1978, many institutions reported that they do not now have enough CWS funds to take care of their students' needs—undergraduate or graduate, full-time or part-time. Over half of all institutions reporting said that CWS funds are not adequate to meet the need.

With rising college costs at both public and private colleges, the need for CWS funds will increase each year. We applaud the willingness of Congress to expand this program, and we hope that it will continue to do so.

However, present needs analysis systems and student aid formulas do not always reflect real need, for families with moderate incomes and many other demands upon their resources. For this reason, we hope that the CWS program can be extended to students who do not demonstrate "documented need" after needy students are taken care of. We support legislative language developed by the American Council on Education to achieve this purpose.

Some question has been raised as to whether we can be sure that the needy are taken care of before the program is extended to serve students of somewhat higher income. If this is indeed a problem, we will work with other associations now to develop legislative language which addresses the problem.

2. Adding language which stresses the importance of work experience which enriches classroom experience and is more directly related to a students' academic and vocational interests, and to community needs. At present the CWS language does not mention the idea that work experience should be relevant to present and future student interests where possible, even though there is universal agreement that students need such experience, to enrich their classroom training and help them develop a clearer sense of their own career possibilities. Work experience can also help students learn more about their communities and carry out a wide range of socially useful work—in elementary-secondary education, day care centers, health programs, programs for the disadvantaged, or the elderly, and so on.

Indeed, CWS can provide a kind of "VISTA" or anti-poverty experience for students.

It has been suggested, for example, that some of the services for the handicapped requiredby new federal legislation could be provided by CWS students. Similarly, they can tutor orcounsel the disadvantaged who are being aided by a wide variety of federal programs.

It is possible that some students who are employed in this way may go into such fields. In any case, they can benefit from a range of work experiences and at the same time help their communities.

We have referred to this approach as a "national co-operative education program," which should draw on the highly successful experience of other cooperative education programs. Funds for federal cooperative education programs are limited, and are probably not going to grow very fast, at a time when many colleges have shown an interest in working in this field. The very large sums of money available under CWS can be utilized imaginatively for such work, both on-campus and off-campus.

We believe that the law should be amended to make it clearer that the Congress wishes to encourage colleges to develop CWS programs which are more closely related to student educational and vocational interests and to community needs.

3. Increasing funds for the new Job Location and Development program. In 1976, with the leadership of former Representative James O'Hara, the CWS program was amended by adding Section 447. Under this section, a college may set aside up to 10 percent or $15,000 of its CWS funds, whichever is less, to establish or expand a program to help locate or develop more CWS jobs for students off-campus. Funds may not be used for on-campus jobs.

It is our understanding that regulations for this new program were not published until quite late in 1978, and as a result only 144 colleges of over 3,000 have participated so far. We are sure that many colleges plan to do so, and we know that the Office of Education is encouraging them.

We believe that this program has great potentiality, but that it is much too limited. $15,000 is simply not enough to operate a meaningful job development program, certainly not a program which tries to relate work to academic and vocational interests. Further, a real co-op ed program requires a great deal of continuing contact both on- and off-campus with potential employers, as well as monitoring employment to make sure that students are indeed placed in appropriate positions and utilized properly.

We therefore suggest that funding for the Job Location and Development program be increased to 20 percent or $30,000, whichever is less, in order for the program to make a real difference. It may also be well to administer it separately from the student aid office, and to involve academic faculty as well as the employment office, but this should be left to the college. There are many experienced specialists in cooperative education who are most enthusiastic about working with colleges to develop and improve such programs.

Some colleges are not in a position, for geographic or other reasons, to develop major off-campus programs, but can use funds more creatively on campus. Therefore, it is essential that Job Location funds also be available to locate and develop jobs on-campus.

4. Academic Credit for College Work-Study. Present law permits the granting of academic credit for CWS, but there is apparently some confusion about this matter because the law previously did not make this possible. We urge that the law be clarified so that there is no question that colleges may grant such credit, if they wish, as is done in many co-op ed programs.

There is general agreement that College Work-Study is one of the best federal aid programs we have. We believe that it can be further improved by moving in the direction we have suggested.

STATEMENT OF DR. FRANKLIN G. MATSLER, EXECUTIVE DIRECTOR, BOARD OF REGENTS OF STATE COLLEGES, SPRINGFIELD, ILL.

Mr. MATSLER. My name is Franklin Matsler. I am the executive director of the board of regents for the State of Illinois. I would like to say before I summarize my testimony—and I will not read the testimony that we prepared for you but rather simply summarize the four major suggestions we have—it might be interesting to indicate before I do this that coming from Illinois probably I present a somewhat provincial view.

I notice that we in Illinois have about $250 million as a total for moneys set aside, both Federal and State, for student aid of some kind or another. Of that about $36 million goes to a work-study program. It has been a very good program.

As I listened to the panelists this morning, there is not one single thing that I could disagree with in a very violent way.

We in Illinois have tried to pay the minimum wage in our public institutions, but we have had problems sometimes in budgeting ahead. When you get into the budget cycle you have already set aside so many dollars and you expect so many jobs available, and then some change in the minimum wage law occurs. There needs to be time for us to crank into the budget the extra moneys that will be needed.

Let me summarize the four suggestions that the American Association of State Colleges and Universities has prepared. We don't, as I say, disagree with the excellent testimony that has been given to this committee this morning. But we would like to see first that there is an extension of the eligibility to more middle-income students.

We think there are many students who fall in a marginal category where they do not have access to college work-study moneys. We think some flexibility could be provided without costing any additional funds by allowing more funds to shift from SEOG up to college work study or back.

There may be some way in which we can provide funds in this way. We found that perhaps over half of our institutions did not have enough college work-study moneys. I asked one of our institutions which had just a little bit more money than it needed 1 year, and I was amazed that had happened. The reason primarily was when they put their packages together they reached a point where students had choices of perhaps going elsewhere for work or where there simply was not enough flexibility in the beginning to work out a program where all that money could be used.

This happened to have been an institution which was not situated in a large metropolitan area.

The second point I would like to add is that perhaps language of the bill should stress, and the amendments, the importance of work experience which does enrich classroom experience and is more directly related to a student's academic and vocational interests than to college needs.

This has been spoken to already, and rather than expand on that I would simply indicate we are very much in favor of establishing some kind of a national cooperative education program. That has to be laid out in such a way there is not confusion with other programs, or that it can be integrated with existing applied study programs which we have on our campuses. So I think it is very important that something like this be established.

The third point that I would like to make is simply that we should have more funds available for this job location and development program which now exists. We are suggesting perhaps this could be increased up to $30,000 or 20 percent, and we think that this ties in very nicely with our view that certainly this kind of program should tie in with the community needs which exist around all the campuses.

So then we only have one other point. That applies to the academic credit which we think should be allowed and which the law does now actually allow. But we do know there has been some confusion in the past because I believe that some years ago the college work-study program did not provide that academic credit should be given.

We caution in this instance, of course, that it is an institutional problem. It shouldn't be placed into the law that academic credit must be given for this kind of work.

Thank you very much, Mr. Chairman, for letting me summarize for the association our views and I appreciate the opportunity to be able to come before you.

Mr. FORD. Mike Goldstein.

STATEMENT OF MICHAEL B. GOLDSTEIN, COUNSEL, COALITION FOR ALTERNATIVES IN POSTSECONDARY EDUCATION

Mr. GOLDSTEIN. Mr. Chairman and members of the committee, I am Michael Goldstein, representing the Coalition for Alternatives in Postsecondary Education.

One of the great advantages of coming at the tail end of so congenial a panel is that many of the proposals which we have submitted to this committee for improvement in the work-study program have in fact been alluded to by our colleagues in the postsecondary community and, therefore, obviating the need to restate major parts of them within our testimony.

I am speaking today not only as advocate of the coalition in general but one who has spent many years in the trenches of work-study and off-campus learning of the great hope of this fine program that it will continue, and continue to improve.

I was delighted this morning to read the testimony from the Office of Education in which they applauded New York City's Urban Corps program as a paradigm for effective off-campus use of work study.

I had the pleasure in 1966 to work for your former colleague, John Lindsay, as the first director of the New York Urban Corps and then from 1968 to 1970 I worked for the Ford Foundation as sort of a cross between Johnny Appleseed and Typhoid Mary spreading urban corps around the country.

It is nice to know that at some point in my past career I have done something which seems to have stuck just a little bit.

As Mike Smith noted in his testimony, when work study was established it was heralded as an imaginative way to give needy young people a chance to work their way through college, at the same time providing them with the opportunity to gain valuable educational and vocational experiences and directing their skills and energies toward serving the needs and interests of their communities.

While it is clear that from its inception, work study was intended as a source of financial assistance for students in need of such aid, it was also clear that the framers of this legislation had in mind something more ambitious.

With the same Federal dollars, it was hoped, the work-study student would not only earn the funds needed for his or her education, but the student would, through a prudent choice of work experience, also directly enhance his or her educational experience, perhaps learning a new skill or refining a career choice.

And, as a further benefit, the growing capacities—as well as the considerable energies—of these students could also be harnessed by public entities and private nonprofit organizations to improve the delivery of services within the students' own communities.

But history of the college work-study program has not borne out this great promise. It is one of the great ironies of Federal higher education policy that work study, created with the concept of multiple benefit from a single Federal investment and with an explicit understanding of the benefits to be obtained by linking the worlds of work and learning, has become over the years almost totally devoid of any educational interests, save that of student financial assistance.

To a considerable degree, the extent to which work study today is used as a work-learning device, or as a way to expand and support needed community services, is altogether coincidental to the primary—one might almost say exclusive—Federal and for the most part institutional interests in this program as a source of funds for the student and, one must add, as a source of heavily subsidized labor for the institution.

One of the most invidious effects of the way the program has been administered is the damage this does to just those students it is most intended to serve, that is, the students with great financial need, for it is these students who must work in order to stay in school.

While their fellow students can elect to participate in internship or other work-learning activities without compensation, these students are often faced with the impossible choice of accepting an internship which might significantly enhance their education and improve their employability upon graduation, or accept a menial work-study job.

For these students, time is a valuable commodity, and they simply cannot afford to give theirs away. So, we find the situation where many educationally-valid work-learning programs are heavily populated with more affluent majority students, while menial work on campus is being carried out by less affluent, minority students supported under college work-study.

That, we submit, is just the educational discrimination the framers of the college work-study program sought to eliminate in 1964.

Before we are accused of attempting to diminish the financial aid aspect of work-study, or to strip the institutions bare of what they rightly view as a needed resource, let me clarify our position. We believe wholeheartedly in work-study as a student financial aid program. It has worked well, providing millions of students with the opportunity to work for their college costs, to earn what otherwise would have to be provided as grants or as mortgages against the students' future earnings.

Work-study has none of the repayment problems of loans, nor does it offend the work ethic as does an outright gift. And it has provided many, many institutions with a necessary Federal subsidy to operate and maintain their own services.

We do not propose that the financial aid purpose of work-study be abandoned. We do not propose that need be eliminated from among the criteria for eligibility, although we certainly support proposals to make that need more flexibile.

We do not believe that work performed for the student's own institution should be eliminated. Indeed, we are not proposing that every student taking part in work-study job should be working at an assignment with a significant academic or vocational component. Nor do we believe that all work-study jobs must by legislative fiat be directed toward the welfare of the community beyond the confines of the campus.

We applaud the wisdom of the Congress in making work-study a flexible program, able to simultaneously meet a variety of needs. We do not propose to circumscribe that flexibility.

We simply want to see it restored.

We want to see work-study become what its framers intended; an opportunity for students to use their time, their energy, and their talents as a part of their overall learning experience.

We know that this Congress shares our belief in the value of work-learning: we have seen evidence of that commitment in your support of the Career Education concept, in various aspects of the

CETA programs, and of course, in your strong support of Cooperative Education.

We propose to restore this balance not through coercion, nor by prescribing the nature of the work-study experience, but by offering incentives, to the institutions, to the students, and to the prospective employers, to enable them to effectively make use of the multiple resource available in the college work-study program.

First, as outlined in our legislative attachment, is our proposal to revitalize the statement of purpose to make it very clear that work-learning and service are integral parts of the work-study program.

Second, we recognize that one of the reasons work-study has not worked as well as it could is the all but impossible burden placed upon the institution, particularly the financial aid officers, to do anything more than administer the student financial aid aspect of the campus-based programs.

We recognize that a constructive work-study program involving work-learning, and particularly involving off-campus activities, requires a greater commitment of resources and a greater storehouse of skills within the institution.

We, therefore, propose that for off-campus internships the administrative allowance be increased by 50 percent.

We also propose, as has been mentioned previously, that the institutions which have significant programs of work-learning as part of the coherent program operated by the institution to integrate work and learning at the institution be entitled to double the amount of funds they can use under the job development section of work-study.

We think if the institution is willing to make such a commitment, then we believe they should receive the support to effectively carry that commitment.

We also propose, as has been previously mentioned, the opening of work-study on a very limited basis to employment in the private sector. We believe that this meets two goals: It offers a greater flexibility for those students who are interested in careers which are not duplicated in the public sector and who need that exposure, and it deals with part of the issue of a drying up of work-study jobs, particularly some of the lower level work-study jobs on campus because of a lack of institutional funds.

Perhaps most important, this provision allows private sector work-study only when the students work is an integral part of that student's learning experience.

We do not simply want to subsidize off-campus private sector employment. We only want to see that used when it is a part of the student's learning experience, directly supervised either by the student's institution, by a consortium of institutions or by a not-for-profit organization established for that purpose.

We should note that our recommendations are fairly similar in effect to the Private Sector and Higher Education Incentive Act that has been introduced by Senator Williams as S. 790. There is one significant difference we would like to highlight. It is perhaps a semantic difference, though we think it is important.

S. 790 ties the use of work-study funds in private sector employment to the cooperative education approach to work-learning. We support cooperative education and we think it is an enormously valuable program. But cooperative education has been defined by those in higher education as describing a particular type of work-learning.

We feel that by tying work-study to that particular type of interaction we are telling many people in higher education who are interested in internships, in service learning, in experiential education that this program is not what we have in mind.

Some years ago I did a study for the National Advisory Council on Career Education on the state of career education at the postsecondary level. There were two interesting findings. Postsecondary institutions, when asked whether they engaged in career education, tended to overwhelmingly answer "no". They viewed career education as vocational education or as something for the elementary and secondary level and not appropriate for their institutions. However, when looking at the programs at the institutions, we found that to a very significant extent those same institutions who said they were not engaged in career education were in fact doing it. But they were repelled by the term career education because of its pedigree, because it came out of the elementary and secondary world.

We are fearful that using coop to subsume what we really mean to be work-learning may have that same effect. One of the great strengths of work-learning has been the variety of parallel programs, of parallel approaches that have developed. We feel that should be encouraged.

We feel that coop is a very important aspect of that, but that we should allow the institutions to develop along the broadest range of possible options.

Finally, we would be remiss in suggesting revisions to work-study without noting the very real need to encourage the development of better linkages between our postsecondary institutions in the world of work.

I would like to note at this point we are working closely with such organizations as the American Society for Training and Development and the National Manpower Institute. The coalition is developing a framework for a comparable interchange between institutions and the private sector.

We believe this can be accomplished with a minimal commitment of Federal resources—but that it will need the encouragement and support of the Congress and the administration. Because this issue is not directly germane to title IV of the Higher Education Act, we are not submitting our proposal for practitioner linkage at this hearing.

We do, however, want this committee to become aware of the need for such linkages, and to know of our interest in their development.

Annexed to our testimony is a copy of our legislative recommendations concerning the college work-study program, as previously submitted to this committee. We hope you will view these proposals as we have framed them: As an effort to achieve in reality the triumvirate of purposes upon which the College work-study Program is founded.

[Attachment to Mr. Goldstein's statement follows:]

ATTACHMENT TO STATEMENT OF

MICHAEL B. GOLDSTEIN
COUNSEL
COALITION FOR ALTERNATIVES
IN POSTSECONDARY EDUCATION

JUNE 7, 1979

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CURRENT LAW	PROPOSED AMENDMENT	RATIONALE
PART C—WORK-STUDY PROGRAMS[1] STATEMENT OF PURPOSE; APPROPRIATIONS AUTHORIZED SEC. 441. (a) The purpose of this part is to stimulate and promote the part-time employment of students, particularly students with great financial need in eligible institutions who are in need of the earnings from such employment to pursue courses of study at such institutions.	Section 441(a) of the Higher Education Act is amended to read as follows: (a) The purpose of this part is to stimulate and promote the part-time employment of students, particularly students with great financial need and particularly where such employment will provide work-learning opportunities supportive of the students' educational and vocational programs and goals and which serve the public interest, in eligible institutions who are in need of the earnings from such employment to pursue courses of study at such institutions.	The multiple and exceptionally cost-effective benefits of CWSP have become submerged by an overriding interest in financial aid. The Statement of Purpose must indicate the several intents of the Program, to multiply the benefits from each dollar spent and to support the new federal policies of education and work linkages and for work-learning opportunities. Amending the purposes provisions of the Part will clear the way for far more effective use of the available resource for learning and service as well as financial aid.
CONDITIONS OF AGREEMENTS SEC. 444. (a) An agreement entered into pursuant to section 443 shall— (7) include provisions to make employment under such work-study program reasonably available (to the extent of available funds) to all eligible students in the institution in need thereof, and to make equivalent employment offered or arranged by the institution reasonably available (to the extent of available funds) to all students in the institution who desire such employment; and	Section 444(a)(7) of the Act is amended by deleting the word "and" after the first comma and adding before the semi colon the following: ,and provide that in the assignment of students to employment under this part the institution will make a reasonable effort to provide a work-learning opportunity consistent with the educational or vocational program or goals of the student	Amending the terms of agreement between the government and institution to incorporate such a commitment will support its implimentation.

CURRENT LAW	PROPOSED AMENDMENTS	RATIONALE
CONDITIONS OF AGREEMENTS SEC. 444. (a) An agreement entered into pursuant to section 443 shall— (1) provide for the operation by the institution of a program for the part-time employment of its students in work for the institution itself (except in the case of a proprietary institution of higher education) or work in the public interest for a Federal, State, or local public agency or private nonprofit organization under an arrangement between the institution and such agency or organization, and such work— (A) will not result in the displacement of employed workers or impair existing contracts for services, (B) will be governed by such conditions of employment as will be appropriate and reasonable in light of such factors as type of work performed, geographical region, and proficiency of the employee, and (C) does not involve the construction, operation, or maintenance of so much of any facility as is used or is to be used for sectarian instruction or as a place for religious worship;	Section 444(a)(1) is amended by inserting before the phrase "and such work---" the words "or as otherwise provided in subsection (d) of this section,".	
(6) provide that the Federal share of the compensation of students employed in the work-study program in accordance with the agreement will not exceed 80 per centum of such compensation; except that the Federal share may exceed 80 per centum of such compensation if the Commissioner determines, pursuant to regulations adopted and promulgated by him establishing objective criteria for such determinations, that a Federal share in excess of 80 per centum is required in furtherance of the purposes of this part;	Section 444(a)(6) is amended by inserting before the first semicolon the following: in the case of work for the institution or in the public interest for a public agency or private nonprofit organization, or 50 percentum of such compensation in the case of work performed under subsection (d) of this section Section 444(a)(6) is further amended by inserting before the phrase "if the commissioner" the words "for work performed for the institution or in the public interest for a public agency or private nonprofit organization"	

CURRENT LAW	PROPOSED AMENDMENTS	RATIONALE
(c) For purposes of paragraph (4) of subsection (a) of this section, in computing average hours of employment of a student over a semester or other term, there shall be excluded any period during which the student is on vacation and any period of nonregular enrollment. Employment under a work-study program during any such period of nonregular enrollment during which classes in which the student is enrolled are in session shall be only to the extent and in accordance with criteria established by or pursuant to regulations of the Commissioner.	Section 444 (c) of the Act is amended by inserting at the end thereof the following: Determination of that amount of a student's work-study award allocable towards non-education related living expenses during a period of non-regular enrollment shall be established by the institution at which the student is enrolled and shall take into account the needs of the student and customary living costs in the area where the student is residing during such period.	Present regulations sharply limit the ability of students to participate in work-study programs on a full-time basis during vacation or other non-enrollment periods, primarily due to the regulatory requirement that all but a very small proportion of earnings be allocable towards educational costs. This ignores the often significant living expenses incurred during non-regular periods, and penalizes the student engaging in full-time work-learning activities. The institutional financial aid officer is most qualified to determine the actual allocation of earnings, based on the needs of the individual student and prevailing costs in the area where the student in residing.

CURRENT LAW	PROPOSED AMENDMENT	RATIONALE
(b) An agreement entered into pursuant to section 443 with an area vocational school shall contain, in addition to the provisions described in subsection (a) of this section, a provision that a student in such a school shall be eligible to participate in a program under this part only if he (1) has a certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate, and (2) is pursuing a program of education or training which requires at least six months to complete and is designed to prepare the student for gainful employment in a recognized occupation. (c) For purposes of paragraph (4) of subsection (a) of this section, in computing average hours of employment of a student over a semester or other term, there shall be excluded any period during which the student is on vacation and any period of nonregular enrollment. Employment under a work-study program during any such period of nonregular enrollment during which classes in which the student is enrolled are in session shall be only to the extent and in accordance with criteria established by or pursuant to regulations of the Commissioner.	Section 444 is amended by adding after subsection (c) a new subsection, as follows: (d) An institution entering into an agreement under section 443 may expend up to 20 percentum of its work-study allocation for the employment of eligible students in the private sector, provided such employment is directly related to the educational or vocational program or goals of the student and is part of a program of work-learning administered directly by the institution, in combination with other eligible institutions, or through a contract with a nonprofit organization.	Valuable opportunities for work-learning experiences exist not only on the campus and with public agencies and private organizations, but increasingly in the private sector as well. The great growth of the cooperative education movement and renewed interest in career education demonstrate the need to encourage and facilitate student experience in the private as well as the public sectors. Nor should it be ignored that the current trend towards reducing the size of government and holding down spending at the state and local levels will continue to have a limiting effect on work-study placements. A limited number of private sector placements, provided they are directly related to the students' academic activities, will help insure that students in need of the aid available through work-study will continue to have access to this resource and have the opportunity to expand their learning and work horizons.

CURRENT LAW	PROPOSED AMENDMENTS	RATIONALE
(none)	Section 444 is further amended by adding after new subsection (d) a new subsection, as follows: (e) Nothing in this part shall restrict the right of an institution to award credit for academic achievements incurred during or as a part of work performed under this part.	Earlier amendments to the work-study program eliminated all legislative restrictions against combining academic credit and work experience. However, many institutional aid officers and indeed some administrators at the regional level of the Office of Education continue to look askance at any combination of academic credit and compensation. Since academic credit is a measure of the intellectual and learning value of the experience to the student, while compensation is a measure of value to the employer, they are in reality unrelated. Further, clear Congressional intent in deleting the previous restriction needs to be reinforced to achieve the intended outcome of eliminating this stricture.

CURRENT LAW	PROPOSED AMENDMENT	RATIONALE
	Section 445 of the Act is amended to read as follows:	The government should seek to maximize the relationship between work-study and other work-learning and work-training activities, particularly where such other activities are also supported by federal funds.
SOURCES OF MATCHING FUNDS Sec. 445. Nothing in this part shall be construed as restricting the source (other than this part) from which the institution may pay its share of the compensation of a student employed under a work-study program covered by an agreement under this part, and such share may be paid to such student in the form of services and equipment (including tuition, room, board, and books) furnished by such institution.	Sec. 445. Nothing in this part shall be construed as restricting the source , including other sources of Federal funds insofar as they may be used for the purpose (other than this part) from which the institution may pay its share of the compensation of a student employed under a work-study program covered by an agreement under this part, and such share may be paid to such student in the form of services and equipment (including tuition, room, board and books) furnished by such institution. The Commissioner shall encourage the use of work-study funds in conjunction with other work-training and work-education activities, particularly where such other activities are supported in whole or in part with federal funds.	Work-study is presently viewed as totally divorced from other work programs, including other parts and titles supported under the Higher Education Act, such as Title VII (Cooperative Education). The language of the statute should be clarified to indicate a clear preference for such interaction.

CURRENT LAW

JOB LOCATION AND DEVELOPMENT PROGRAMS

SEC. 447. (a) The Commissioner is authorized to enter into agreements with eligible institutions under which such institution may use not more than 10 per centum or $15,000 of its allotment under section 446, whichever is less, to establish or expand a program under which such institution, separately, in combination with other eligible institutions, or through a contract with a nonprofit organization, locates and develops jobs for currently enrolled students which are suitable to the scheduling and other needs of such students.

(b) Agreements under subsection (a) shall—

(1) provide that the Federal share of the cost of any program under this section will not exceed 80 per centum of such cost;

(2) provide satisfactory assurance that funds available under this section will not be used to locate or develop jobs at an eligible institution;

(3) provide satisfactory assurance that the institution will continue to spend in its own job location and development programs, from sources other than funds received under this section, not less than the average expenditures per year made during the most recent three fiscal years preceding the effective date of the agreement;

(4) provide satisfactory assurance that funds available under this section will not be used for the location or development of jobs for students to obtain upon graduation, but rather for the location and development of jobs available to students during and between periods of attendance at such institution;

(5) provide satisfactory assurance that the location or development of jobs pursuant to programs assisted under this section will not result in the displacement of employed workers or impair existing contracts for services;

(6) provide satisfactory assurance that Federal funds used for the purposes of this section can realistically be expected to help generate student wages exceeding in the aggregate the amount of such funds and that if such funds are used to contract with another organization, appropriate performance standards are part of such contract; and

(7) provide that the institution will submit to the Commissioner an annual report on the uses made of funds provided under this section and an evaluation of the effectiveness of such program in benefiting the students of such institution.

PROPOSED AMENDMENT

Section 447(a) of the Act is amended by deleting the word "jobs" and inserting in its place the following:

work experience opportunities, whether or not supported with funds allocated under section 446,

Section 447 of the Act is further amended by adding after paragraph (b) the following new paragraphs:

(c) Agreements under subsection (a) may provide that at least one half of the funds allocated under section 446 (not including funds allocated under this section) will be used for the support of employment, other than for the benefit of the institution itself, which bears a direct relationship to the academic or vocational program or goals of the participating student.

(d) An eligible institution whose agreement with the Commissioner includes the provision provided in subsection (c) may, notwithstanding the provisions of subsection (a), use not more than 20 percentum or $30,000 of its allotment under section 446, whichever is less, for the purposes of this section.

RATIONALE

While participating institutions need to be encouraged to allocate substantially more work-study resources to off-campus work-learning placements, there is also the need to assist those institutions in the admittedly more complex process of developing educationally relevant and effective off-campus placements, and to provide the requisite oversight necessary for a proper program.

The existing Job Development section should be amended to focus more directly on "work experience" rather than simply jobs, and to provide a direct incentive for the development of effective off-campus work-study placements.

CURRENT LAW	PROPOSED AMENDMENTS	RATIONALE
EXPENSES OF ADMINISTRATION Sec. 493. (a) An institution which has entered into an agreement with the Commissioner under subpart 2 of part A, part C, or part E of this title shall be entitled for each fiscal year for which it receives an allotment under any such part to a payment for the purposes set forth in subsection (C). The payment for a fiscal year (1) shall be payable from each such allotment in accordance with regulations of the Commissioner, and (2) shall (except as provided in subsection (b)) be an amount equal to 4 per centum of (A) the institution's expenditures during the fiscal year from its allotment under part A plus (B) its expenditures during such fiscal year under part C for compensation of students, plus (C) the principal amount of loans made during such fiscal year from its student loan fund established under part E.	Section 493(a) of the Act is amended by deleting after "(B)" the words "its expenditures during such fiscal year under Part C for compensation of students, plus (C)" and inserting at the end of the paragraph the following: and an amount equal to 4 percentum of its expenditures during such fiscal year under Part C for the compensation of students employed in the service of the institution and 6 percentum of its expenditures during such fiscal year under Part C for the compensation of students not employed in the service of the institution.	The development of effective off-campus work-learning placements is a more complex and to a certain extent more costly endeavor for the institution. By recognizing this difference in the allocation of expenses of administration, the institution is not penalized for increased effort towards off-campus work-learning opportunities. Since work performed for the benefit of the institution is already directly subsidized through the federal share of compensation, this off-campus expense differential is particularly equitable.

CURRENT LAW	PROPOSED AMENDMENTS	RATIONALE
INSTITUTIONAL AND FINANCIAL ASSISTANCE INFORMATION FOR STUDENTS SEC. 493A. (a)(1) Effective July 1, 1977, each institution of higher education and each eligible institution which receives payments under sections 411(d), 428(c) or 493 of this title, as the case may be, shall carry out information dissemination activities to prospective students and to enrolled students who request information regarding financial assistance under this title. The information required by this section shall be produced and be made readily available, through appropriate publications and mailings, to all current students and to any prospective student upon request. The information required by this section shall accurately describe— (A) the student financial assistance programs available to students who enroll at such institution,	Section 493A(a)(1)(A) of the Act is amended by inserting at the end thereof the following: including off-campus employment opportunities supported under Part C of this title,	Students are generally very poorly informed as to the range of employment and work-learning opportunities available to them, and are therefore unable to intelligently choose between different types of positions, including those which may have significant learning and vocational attributes. The student information requirements should be designed to remedy this defect.

Mr. Ford. Several of you have suggested that work-study funds be spread out to permit participation by private profit-making institutions.

What kind of jobs would you contemplate that private enterprise would make available to colleges and universities if this latitude were permitted?

Mr. Goldstein. I will start off. From our experience there could be jobs, for example, in the area of engineering aides, in the area of marketing, and in the area of business administration.

Mr. Ford. Would the area of marketing include staffing your local friendly McDonald's?

Mr. Goldstein. It might if it were in the context of managing, a career assistant manager of a local McDonald's that had responsibilities in an area tied to a student's program in business administration.

If it was a question of holding the relish or the mustard, I cannot conceive of an academic program where that work would be a valid part of the educational program.

Mr. Ford. The temptation has been very strong and the evidence is very clear that work-study jobs become over a period of time less and less related to anything worthwhile from the student's point of view in terms of the learning experience and more and more relied upon by the institution as a substitute for other resources: cafeteria workers, maintenance workers, et cetera, to the point where the work-study program literally takes over these functions or any expansion that has occurred in the functions since the existence of the work-study program.

If you have 50 leaf-rakers and we give the college twice as much money as it has had, we wind up with 100 leaf-rakers not 80 leaf-rakers and 20 teaching assistants.

That seems to be the way it works out.

What is going to be present with private enterprise that is going to keep them from doing the same thing that our great public institutions have been doing with this program?

I know somebody at the table at least believes that is a proper motivation on the part of the institution. I don't happen to agree with that at all. I was here when we started this and I have lived with it all the way through and we have lots of ways to help institutions but this is like the CETA program that we have seen perverted by local officials from a program intended to train people to make them employable into a form of revenue sharing.

Now we try to reduce it in some fashion and the concern is not that we will reduce the training of people for job opportunities, the concern is that we will hurt the budget of the local city using the CETA employees in all kinds of functions.

That is what work-study has become for many institutions, that coupled with the request for over 700 waivers of the minimum wage. I am proud to see not one public institution in my State has asked for a waiver according to the information the students have given us. I note in Illinois only one very small institution, strangely enough located in Cook County, has asked for a waiver. I would have expected it someplace in a rural setting.

In Pennsylvania they have also been very sparing in making the application and the large number of applications where you might expect to see a large number of applications and where some subminimum or no minimum wage is relatively popular.

To now suggest that we consider participation in a subsidized way by private enterprise in this program, in light of the experience we have had with it, just is very hard to justify. If somebody wants to try, I would like to hear it.

Mr. **Packer**. I agree basically with what you said. In terms of what we submitted, we said that jobs can only be funded when such employment is directly related to the educational and vocational program or goals of the student and is part of a work-learning program.

In other words, these jobs can only be funded if they are related.

Mr. **Ford**. How about staffing 11 H. & R. Block offices all around the city with accounting majors? It would be great for H. & R. Block.

Mr. **Packer**. That is true.

Mr. **Ford**. But how would you get H. & R. Block to hire the same number of people year-round as they would just before tax time? They are in business to make a profit. They are not in the education business.

Mr. **Packer**. Obviously, there are certain problems with allowing work-study jobs in the private sector and I think we have to look at the balance between potential benefits to the students by providing them with opportunity that they wouldn't get in the not-for-profit sector in effect against subsidizing private employers and see whether those two different sides balance out and whether it might be worth limited expenditure.

We recommend only 20 percent of the work-study funds, and I believe there are certain controversies that need to be looked at very carefully.

Mr. **Matsler**. One of the proposals was to expand the job improvement program, finding ways in which we could have some more money in this fund and provide the authority for people, not just counselors or not just clerks on campus, but perhaps academic persons, to help coordinate this, by providing more money in the job development program. It would appear to me we could ride herd on this better.

Mr. **Ford**. That is interesting. I am told only 144 institutions have exercised the option of using their money for the job development function. Why?

Mr. **Packer**. Partially because the regulations did not come out until last year.

Mr. **Kocian**. Part of the disincentive there is the way it is structured, the direct reduction of funds when applying for financial aid and perhaps—you can correct me if I am wrong—I do not believe an institution can specify a job development program as an additional part of the need for funds. It comes directly out of aid for students; that is why we suggested separating the allocation.

Mr. **Goldstein**. A major part of the problem has been the inability of the person charged with administering the program on campus to go beyond simply filling those job orders that come in. The experience of the New York Urban Corps is illustrative. The urban corps did not come into being because the colleges decided that they wanted off-campus placements. It developed because

Mayor Lindsay and members of the New York congressional delegation invited college presidents to talk about how their students could become involved in the city. The presidents went back to their institutions all fired up. They told their administration and dean: "Let's get involved in this." That percolated down the line. The financial officers were told to take part in this program.

What happened was a very active promotional campaign to the academic side of the program that says to the student: "If you are eligible for work-study, you do have an option. Go to your financial aid office and tell them you want to work in urban corps." This has worked in New York, the Twin Cities, and a number of other cities.

The problem has been a lack of incentive, a failure to reach the student and say that he or she has a choice. If a student is faced with financial need and he or she is told the way to meet that need is to bus dishes in the cafeteria, the student will do just that. Or the student may say, "I do not need to do that; I can go get a part-time job washing dishes in the private sector. I will not even tell my institution I have that job. The earnings are sufficiently low that they will not show up and I will still get my full aid package."

Indeed we are encouraging fairly widespread abuse of the financial aid system through part-time employment. We feel one of the things which a tie between work and learning will achieve will be the much more valuable use of the student's time so that the student is not simply collecting dollars, and gaining nothing beyond that.

Mr. FORD. We fund cooperative education activities but we do not fund any of the payroll. We just fund the institution's ability to go out and shop for cooperative education opportunities. In a State like Minnesota, that seems to be quite widespread and works quite well. It does not raise any problems because there is no question of subsidizing private enterprise or private wage scales.

Further, there is no problem of using the existence of a work-study student as an excuse to get a subminimum wage into a private employer.

McDonald's bought and paid for the minimum wage bill in 1972, along with a President to go with it; $274,000 was put into the Committee to Reelect the President's coffers about 48 hours before we voted on the floor. It was adopted by some seven votes, as I recall. Their record is something less than great but the amount of resources they are willing to put into achieving that leaves you with the impression it is not a casually achieved goal. I do not want to see us get further tangled up in this. I think we are subject to serious attack from the people most responsible for funding these programs so long as we allow this sort of thing to happen.

But if we did look at the activity with work-study, building a job bank similar to it, what is the objective?

We started out originally in 1964, saying we have a hunch that a lot of things that need to be done around colleges and universities are not getting done because they do not have the resources or their programs are not being done as well as they could be because they are tight on resources. If we subsidized the payroll, they would make some jobs and that would give some young people an opportunity to earn part of the cost of going to school. It also benefits the institution by providing funds for additional employees.

That is what we were trying to do initially, to get money into the hands of young people without handing it to them directly.

If we strip it down, making it another form of grant, we ought to forget the whole work nonsense.

As I listen to this, it seems as if we are getting along far enough with this program so that the original purpose does not seem to be as important as it was before.

As I indicated, we heard last year one person who thought we ought to multiply the money in work-study because the value of good Americans being forced to work their way through college was so extremely important. That was better than any kind of grant or loan program. We should put all our money in it so everybody could be working their way through school.

That is a point of view that I am sure must be shared by other educators like the one who testified here. But, do we need work-study? Once we reach the stage where we start tinkering with all this, if we are going to turn it into co-op education, why not put more money in co-op education and forget it?

What we have here is a thinly disguised grant, rationed by the willingness of the student to participate in some kind of work experience; slinging hash, raking leaves.

Now we are talking about the lack of satisfaction in the job, the lack of educational relativity, and other matters. We are not thinking any longer about a method of rationing out Federal money to provide education.

Why should the work-study job be particularly satisfying? I think there should be some kind of value in learning what kinds of jobs you do not want to ever do again. I can think of some of the jobs I had to do in college that I hope the good Lord will not force me to confront again.

Mr. GOLDSTEIN. I think you can turn around the question of what has happened with work-study. It has been successful as a financial aid device. It has met that goal well with far less of the problems of the other aid programs.

All that we are proposing is not to tinker with the financial aid aspect, to leave it essentially as it is. But if we are already doing it, and if we have the students receiving compensation, with the increased awareness, we should offer the student an experience which relates to his or her career. If we have the opportunity to do that with the same Federal dollars without the expenditure of a single additional dime, why not encourage that opportunity? That is really all we are saying. We are using the same money. There is half a billion dollars now being allocated to work-study as opposed to the tiny fraction of that amount going into all other internship programs, including VISTA, Peace Corps, and the like.

Why not make the language of the Act sufficiently permissive so that with that same Federal commitment, we are gaining what we have all been talking about, that is the value of the relationship between the world of work and the world of education. Here we have an opportunity to build on the basis of almost zero cost. Quite frankly, if we had one thing or another to give up, what we would most stand by is the notion of work-study as combining financial aid and service learning but keeping it entirely in the public sector. If we can extend the program to the private sector as part of furthering the learning experience that is a benefit. But the key is the learning component of the work experience. When that is possible with the same dollars, we think it is a valuable goal.

Mr. **Ford**. Mike, nobody can disagree with that, but how do you keep the game honest? When you make value judgments as to what kind of work experiences are worthwhile, you have characteristics of the person who will occupy that slot that move away from the characteristics of the person getting the work-study money. He is supposed to be getting it because a student financial aid officer reaches a certain stage and says, OK, for you, we have to get you a work-study job that will pay this much.

That is the single characteristic of qualifying at that point, not the fact there are 10 assistant lab technician positions in the chemistry department. Maybe you have before you a freshman not interested in chemistry who did not get close to a chemistry lab in high school. When you follow that procedure, you have a new factor of rationing the work-study money to the students. To the extent you succeed in doing what you are saying, the college gets all these work-study jobs moved away from leaf-raking and washing dishes and into more meaningful positions at or around the university. To that extent, they limit the number of people who can participate in a meaningful way in any of those jobs.

Mr. **Goldstein**. I think the strength of what several of us have proposed is that we are not requiring any institution to concentrate on work learning. We are not telling any student, if he or she does not want "a meaningful position" they cannot get work-study.

There are students who would be delighted to sit in the library and watch the door and do their studying. Maybe those students are unwise. But we do not feel a student should be deprived of the right to be unwise. All we are asking is that the institution offer that student work-study alternatives ranging from raking leaves, to being a lab assistant on the campus, to being a community worker or a legal aide or anything else that is appropriate off the campus. Like that option has been available since 1964, we feel it has not been utilized to any significant degree. Eighty-five percent of work-study is on campus and it is low-level, primarily because of the institution's own needs, and second due to the lack of direction from the Office of Education in terms of encouraging the institutions to think, encourage work-study tied in with academic credit.

Mr. **Packer**. I think the point is this option to the students. I would not go quite as far as saying if a student wants to work in a library, that is not a wise decision. I think it is an option that certainly should remain widely available and I do not think we should restrict persons' options to do that.

There are many low-income students who might want to benefit from these opportunities but right now, they have to get a job to earn money, and because most jobs are low-level, they are not given the same opportunities. I know in my personal situation, over the summer, I had to earn money to help go to school and generally got lower-level jobs. I would have preferred to get CWS placement to help me gain insight in my future career goals. But I think we have to look at the option question which is not a real one at this point.

Mr. FORD. I am looking at a breakdown of a ACE's testimony the day before yesterday, where they break down the types of aid. For recipients of college work-study only, that is obviously not the whole picture, in 1974-75, 31 percent of them had family incomes of $10,000 or less. By 1977-79, that had dropped to 10 percent; 1974 to 1975, only 27 percent of the work-study participants were in the $15,000 to $25,000 bracket. By 1977-78, that had risen to 45 percent.

This is a characteristic that has been called to our attention before, that what has happened since the early days is that the work-study program has become more and more a middle-income student program. The lower income students are not relying on work-study as much as they were even 6 or 7 years ago because they have the BEOG's money.

That trend is something that started occurring when the first BEOG's money got to the campus. In 1974 to 1975 it did not have time to make a very big impact. But in the four ensuing academic years there were dramatic shifts. Now 18.4 is going to students in families over $25,000.

It tells us something about the shift in type of student that is getting the work-study award and seeking work-study. But it does not tell us why the demand for work-study is dropping as quickly as it is in some parts of the country.

Mr. PACKER. I think those figures might be misleading. In that same report you are referring to, for all work-study recipients who were freshmen, 50 percent had incomes less than $12,500. Those figures would obviously be higher because those people might be ineligible for a basic grant but still have eligibility under the various needs analysis. So it is hard to get the full picture sometimes by looking at the work-study-only category.

Mr. GOLDSTEIN. The gross figures can be misleading in terms of the work-study workforce. Of the many programs that I have looked at, a very substantial number of the students engage in work-study activities are from lower-income, relatively lower-income backgrounds. Indeed one of the admitted problems in developing a constructive work-learning program is finding positions which relate to lower-level students who may come from educationally disadvantaged backgrounds.

Mr. FORD. Mr. Bailey.

Mr. BAILEY. Thank you, Mr. Chairman.

Just a couple of observations. I worked a few years ago at the Pennsylvania Democratic State Committee. We had a brief experience with intern programs and things of that sort. Although—I am very new to this material—I would just like to comment briefly on some of the things that Chairman Ford had to say. Evaluation models for students are extremely difficult things for a university, they have a tendency to be very, very time-consuming, labor intensive, and if you will, problems for faculty and for administration. There are many questions. I think in many cases, as has been my experience is the evaluation model problem; and second, the administrative costs. Lastly, I would hope, if we approach a work-

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study concept, in a comprehensive way, that it is bifurcated. I hope it is separate.

I agree with and feel very strongly about the experience. I think the chairman alluded to and, because I had occasion to work in a steel mill, on road construction, went out and found my job for summer was that sort of thing. They were fantastic experiences to me. They gave me tremendous insights, I really question a lot of times, the student program. In fact, I ran student programs for the Democratic State Committee.

Sometimes when we get into these educational programs and I am saying this generally, we get very snobbish and develop very aloof attitudes toward work-connected experiences; where we originated, what we see through someone else's eye, or even towards a job somebody has to go out and wash dishes to earn a meal someplace. I feel these jobs are more valuable. That is my opinion. It is more valuable than sometimes things we like to term work-study-related. I sincerely hope we do not lose the emphasis of the program, work-study, which can be valuable in several instances.

You mentioned skill levels. That is a severe problem in this area for students exposed for short periods of time. It is a matter of emphasis and attitude. I hope we do not forget that the idea is to provide some help so the education can be obtained. Do not lose sight of that. Also let the academics exist in a realm where they more properly belongs.

That is just my observation on what has been said here.

Mr. CROWLEY. Two years ago, I visited several universities and talked with a large number of graduate school deans, department chairmen, and other job placement specialists. I was struck by the sensitivity to the educational dimension of work-study I found among those people. At the same time I was struck by the challenge it poses to the administrator. Work-study is the most difficult program to administer. Students, freshmen particularly often change jobs several times during the course of the year. They are in fact, encouraged to do that. They frequently move around from job to job within the institution. Student aid directors and others point to the varied experiences those students have as a result. Where possible, many work into positions as lab assistants, teaching assistants, graders or special tutors as they advance to junioir and senior years. They often are sensitive to this and aware that skills learned through the program are very salable outside.

Mr. FORD. John, I think that is what we would expect. It would be a kind of a natural happening around colleges and universities. But Tom has just called my attention to the very simple, clean way in which we described this program in the statute. "The purpose of this part is to stimulate and promote the part-time employment of students, particularly students with great financial need in eligible institutions who are in need of the earnings from such employment to pursue courses of study at such institutions."

Now the minute we start talking about pursue employment which has meaning and substance and so on, and the regulation writers start writing what has meaning and substance and so on and half the money we have in here going to students' salaries will turn up in administrative costs from trying to live with complicated definitions as to what is and what is not a meaningful education

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thing. If we leave it the way it is, once we get to the college campus, they can be made all leaf-rakers or anything else they want as long as they give them a paycheck to help pay for their education at that institution. As tempting as it is to tinker with this kind of legislation, is it not possible we ought to leave that decisionmaking where it is, on the college campus, and not get HEW or perhaps the new Department of Education involved in the game?

Mr. GOLDSTEIN. I think that is precisely what we are trying to propose. Just as a few years ago particularly "students with great financial need" was added to clarify what was already the intent of the act, although it did not change the substance. All we are suggesting is clarifying the existing multiple purposes.

We are suggesting that the agreement between HEW and the institution indicate the institution will make a reasonable effort to provide a work-learning opportunity consistent with the educational or vocational program or goals of the student.

We are not saying every student has to have that experience. We are not requiring any compulsion whatsoever. We are simply saying that that experience ought to be available for those students with the skills and with the interests to benefit.

The sad history of work-study has been the lack of that availability. While some institutions are sensitive to the fact that work-study can also be work-learning experience, we would simply like the encouragement of this Congress to see that it is available. Again, we do not want to coerce, but rather to encourage it and development to occur.

Mr. FORD. I would be willing to see all those things in the report that hopefully someone would read, but when I look at your language I can see pages and pages that the Office of Education would define as support of educational programs.

Does that sound a little bit like the VA does when they talk about reasonable progress toward their educational goal? Goals which serve the public interest, also.

Mr. GOLDSTEIN. We would consider a friendly amendment prohibiting the Office of Education from writing any regulations.

Reverend DRISCOLL. I think your point is very well taken. Despite the fact many of us have recommended the work-study be extended in some ways into the public area, we are not recommending that the work-study program lose sight of the fact that the primary educational experience of the student is to be found in academic programs, not in the work-study program.

If there can be academic benefit derived from a work situation, fine: but it must be without detriment to the students' primary academic purpose.

So I would support what was just stated, viz., that we should not subject the program up to the penchant on the part of agencies to write in uniformed regulations. If the program is primarily one of financial aid, I see nothing wrong with the students' raking leaves or washing dishes. I swung a sledge hammer on a railroad to help pay for my education and I benefited from it.

There is nothing wrong with a student's doing something to help pay for his education.

Relating now to the point of the subminimum wage, students should not be exploited. Obviously, the program exists for the benefit of students, but there is a very real sense in which the alleged slave labor is more on the part of the faculty and administration, who continue to subsidize students by reason of their low salaries and demanding working conditions.

Also, if I may, in speaking now for a very important segment of the higher education establishment, namely, the private, independent sector, we have been hurt by the impact of what is socially desirable legislation, e.g., the Rehabilitation Act, section 504.

Obviously, this is socially desirable, socially needed. But private, independent education for the most part receives very little support except in an indirect fashion such as work-study, from the State or Federal Government. So, there is absolutely no way, if we are to continue to provide our particular kind of service, that we can meet these standards and comply with these regulations.

So here is the dilemma. We exist to serve the student and society. We wish to observe the Federal and State regulations connected with socially desirable legislation. But yet we find it financially impossible to do so.

Private institutions are inordinately dependent upon student-generated, student-associated revenues in order to continue to operate. An institution such as my own, for example, depends on tuition to cover up to 70 percent of operational costs. Thus, it is clear what the student pays does not cover the cost of this education. Anything that drives up our overhead forces us not only to raise our tuition but also to subsidize even more the student who comes to us.

So when we talk about the minimum wage, we are saying that to the extent that this adversely impacts overall operations by driving up costs, forcing us to raise tuition in order to meet these costs ultimately rebounds to the disadvantage of students.

It is our purpose to distribute Federal funds as broadly as possible so as to achieve the maximum benefit to students. But sometimes Federal regulations, Federal legislation, (that are admirable) affect educational (not-for-profit) institutions in a way that they do not affect business and industry, which can absorb the association cost and pass it on to the consumer. On the other hand, our consumers' ability to meet our rising costs is limited and dwindling.

Mr. FORD. I think Mr. Packer already responded in part to that by pointing out that the number of dollars there on the campus is not determined by the number of hours that are worked. It is not like any other enterprise where the operation of the minimum wage is involved. The number of dollars coming to a campus is based on the number of students selected as having need, and the number of dollars coming to you within Pennsylvania out of the total share that gets into the State of Pennsylvania is determined by the relative need as evidenced by what? Not the need of your institution for service—the kind of student body you are serving—so the more students on your campus who have a demonstrated need for work-study money, the more work-study money you will get out of the total pot.

Once that dividing-out process takes place, the function of the minimum wage doesn't have a thing to do with adding more dollars or reducing the dollars that are on the campus. It then becomes a question of whether you shift over from the initial purpose of getting those dollars on the campus in the form of tuition and the other costs of being enrolled or whether you now say, well, we do have somebody we can exploit if we can hold him down.

I have the feeling that the motivation for the subminimum waiver is probably pushed more by other employees than it is by work-study employees. In other words, a college that is paying $2 an hour for a kind of routine job in the cafeteria gets upset at the idea that it is going to have a $3 an hour work-study employee in there with the other employees that will push the other wages up. There may still be places like that.

I recall that in the sixties we had school districts that would not use the in-school work program at the high school level because we prescribed a $1.25 an hour. They said if we pay that we will bankrupt ourselves with the other employees.

Some of us were a little surprised there were still people working for a $1.25 in the late sixties but they were in places like Cleveland, Ohio.

We had to work around that very gingerly to find ways to get institutions to take teenagers at $1.25 an hour. Now it appears that the number of institutions that think $2.80 an hour is too much number is in the hundreds.

Mr. KOCIAN. I will have a heart attack if I can't respond to this. I just think I have to go on record.

I like to believe that our organization, COPUS, is one of the strongest representatives of independent higher education and I don't feel at all threatened by the removal of the minimum wage waiver. We understand the needs of our institutions are quite real and quite directly affect the welfare of our students but these needs have to be addressed separately and specifically and not at the expense of the student aid program or we shouldn't call it a student aid program. It is that simple. Students understand that.

Finally, I would like to respond to the concern about regulation. Certainly that is a concern in the independent sector. What we are talking about as far as jobs development or expanding the jobs opportunities doesn't really need any redefinition of the program. It doesn't need any regulation. Those jobs are all out there.

I just know my local COPUS chapter where I go to school by its own initiative looked around the small town we are in and found well over 100 additional nonprofit, interesting service-oriented jobs available that were for services needed. All we have to do is identify those jobs.

I don't believe we need to encourage or we don't need to mandate institutions to find those jobs. We need to do something to help make those jobs apparent to students and the selection process alone will determine which jobs are relevant and which jobs aren't.

Mr. FORD. Thank you.

Our concern here has to go beyond this piece of legislation also. There is something almost hypocritical on our part, especially as the chairman of this committee with the amount of time and effort I put in fighting the whole concept of subminimum wage for young

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people which I consider to be, when all the rhetoric is stripped aside, a way to exploit young people. Because if it works, what it means is you replace a full worker with something less than a full worker. That isn't desirable but it does produce that.

But after we fight like this and tell private enterprises in all other endeavors they have to come up to this minimum, by golly, because you people are not going to exploit people just because they are students or under 18, then we turn around and knowingly permit our colleges and universities to ask for the privilege of doing that which we bitterly deny anybody in private enterprise. This doesn't strike me as being something we can justify.

I think perhaps we ought to ask the Labor Department what the impact of these waivers is over a period of time and particularly what would happen if we then have a whole flurry of requests coming in. What is the impact of having a major institution in the community that gets a waiver on youth employment generally? Does that reinforce the feeling of the private employer that he is being dealt with unfairly by the minimum wage law?

Further, does it discourage him in trying to find jobs for young people? We might, in trying to accommodate that very small benefit to some institutions, be doing something that has a far broader social implication than we intend.

I want to thank all of you very much for your testimony.

Do you have some questions?

Mr. **Clohan**. One of the biggest debates that will come out of these hearings regarding college work-study is whether to expand it to private-sector jobs. Many of you have recommended that expansion with some restrictions. What is the primary reason you are recommending it? Is it because under the present program there just aren't enough jobs in nonprofit institutions, or because it will provide for career-related work experience?

Mr. Jeffords earlier noted that the administration recommended $50 million less for this appropriation this year than last year. The aggregate demand by the institutions has gone down slightly or at least stayed the same the last couple of years. Some of that is probably due to the increased enrollments, but how much of that is due to lack of jobs? How much would the lack of jobs be corrected by your recommendation to expand the programs so that the institutions could go out and find nonprofit jobs?

Mr. **Goldstein**. Let me respond to that in what might seem contradictory terms. On the one hand, Mr. Smith's testimony noted in New York there are three times as many requests for students from public agencies as there are available students. The limitation on that is the limitation of the city in coming up with the matching funds because clearly there is a substantial reservoir in the public sector. Part of the problem of tapping that reservoir is the inability of the institutions to work with government agencies in the nonprofit sector in developing appropriate work-study problems.

Our reason in supporting limited work-study in the private sector is very simply because there are activities in the private sector, learning experiences in the private sector, which cannot be duplicated in the public sector.

We feel that students who need the aid and who would also benefit from that learning experience should have the opportunity to do so. We are neither wedded to a 20-percent share of a work-study allocation or, indeed, to a 50-percent match.

We would certainly be more than willing to look favorably on changes in that which perhaps even more closely circumscribe the degree to which work-study can be used in the private sector but we think there are valid purposes that, by tying it inextricably to the academic program of the institution, we are avoiding the kind of abuses that Chairman Ford very properly raised.

Those were abuses over which all of us are very deeply concerned.

Mr. CLOHAN. You have dealt with learning-related work experience. Is there a decreased demand on the part of the students? MISSA hasn't even impacted yet. It is possible next year, even though the institutions have, according to the GAO report, overstated their needs significantly in the college work-study program.

Mr. PACKER. This is the first I had heard there had been a drop in their request. It doesn't necessarily mean, however, there is a decrease in demand from students. As you are aware, there are new allocation formulas and a change in which the way the institution has to verify its requests.

I think we have to carefully look at those changes over the next year or so.

Mr. CLOHAN. Are you are saying the institutions may be more honest?

Mr. PACKER. Not necessarily more honest but because it was the first year they might not have had the ability to fully document the need.

Mr. FORD. Some concern has been expressed on the distribution system now, that we give some institutions more work-study than they really can utilize and it becomes an effort for them to put it to work while others run out of their work-study money very early.

Reverend DRISCOLL. Would you permit my associate to speak to that point?

Mr. SWITZER. As an active aid director I have been virtually exploding back here, but part of the reason I think that the requests went down was the very rigid format of the application procedure. When it was proposed I know we in Pennsylvania wrote with that very protest that it would in fact force down the requests because, first of all, we had to work from a 2-year-old fiscal operations report in terms of the funds we were requesting and we were being allowed only a 12-percent increase in funding when in fact our student needs were increasing many times that rate.

The reply would come back from HEW, but yes, you could have asked for additional funds. However, the parameters were so tight that it was almost impossible for most institutions to be able to justify their need in those terms for the additional funding.

So this is why I think you will see the dollars of requests actually going down as a result of that very rigid application format.

The other question that has been raised is this business of control if the funding were permitted to be used in the private sector. I would like to describe what we are doing in the State of Pennsylvania at the moment in the public sector which makes available this dimension of work experience there. Through the Pennsylvania Higher Education Assistance Agency we have a cooperative program that any student coming into our office whom we have told is eligible for work-study employment can sit down and go through a manual that is three-quarters of an inch thick picking job opportunities not only by agency but by type of employment and then almost without exception be placed into that job in his home community or near the campus depending on the need.

It seems to me that the same type of thing with business and industry can give the student a wider spectrum of job selection but whether or not that is a meaningful job will really be dependent on the student.

If it is meaningless the student will not take it. He would rather work on campus raking leaves than to go out and throw onions at the local McDonald's.

But the thing that has been exciting to us is to have students coming back at the end of the summer just absolutely excited by what they have been able to do during the summer, an accounting major who did auditing and said, they want me back next summer but I have to stay in school next summer. If you have anyone else who wants accounting experience, tell them to go out there because the man for whom I was working was teaching me all summer on my job.

I could go on at great length about students who come back telling us of this kind of employment experience but it is because we make it available and allow them to make that selection rather than simply assigning them for the benefit of our institution, that I believe inclusion of jobs with private enterprise can be successful.

I am not sure whether I have answered your question.

Mr. CLOHAN. You referred to summer employment. In the past that has been a significant problem. Institutions cannot predict how much money they would have for the summer. Would the recommendation to allow 10-percent carryover money eliminate that problem?

Mr. SWITZER. I think the 10 percent probably would. I think there is a simpler way which is outlined in our paper. That is simply to ask that institutions adhere to the NIH cash request system which means drawing down 1 month in advance their estimated needs and having the Commissioner monitor the NIH authorizations. If an institution is underutilizing their authorization, the Commissioner can deobligate their funds and reallocate so funds are fully utilized at an early date.

I think this would eliminate the after-the-fact deobligation which now occurs. It would eliminate the late reallocations that now take place. In many instances unless an institution is willing to gamble and invest its own funds it can't utilize the dollars.

The procedure outlined in our paper will greatly facilitate institutional use of the funds while giving the Commissioner a tool to insure more efficient rational use of these dollars. This procedure tends to eliminate waiting until the fiscal operations reports go in, to discover underutilization.

Mr. CLOHAN. Would that procedure be impacted by the recommendation that Congress ought to authorize college work-study funds for greater than need? In other words, if an institution uses

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its funds for more than just need and another institution has tremendous need would the State reallocation procedure provide for equity?

Mr. **Switzer**. That is a great concern on my part.

Philosophically I would like to see every student be eligible but I also see this same problem of allocation. I happen to have an institution that never gets enough dollars in this program because we started late in it. Yet, I also see other institutions who if they didn't have to adhere to need would utilize dollars that right now we are hoping they won't use and we can get by way of reallocation.

Mr. **Clohan**. One of the biggest concerns for Congress would be if they authorize use of college work-study for greater than need for some institutions while other students at other institutions have not met their need yet. The reallocation process has been extremely unsmooth so far. Could any of you shed light on how you could do that if Congress allowed greater than need?

Mr. **Ford**. I think the reason the language was written the way it was in 1976 was to make sure we didn't have a regulation that turned us into a poverty program. We had some movement already occurring, and at that time we were suggesting some of the things that ended up in the Middle Income Student Assistance Act. They were heresay at that time.

It is still open to a lot of local knowledge and interpretation. But we wanted to stay away from tying us down to some kind of arbitrary cutoff and make it as close as possible to the kind of need determinations involved in. For example, SEOG. There wasn't any national standard then.

Mr. **Packer**. One quick point on a different matter which I didn't mention in my testimony. Our understanding is in certain cases work-study funds are deducted from or used to reduce eligiblity for people who can get AFDC help. Other student aid grants are not counted in determining AFDC. This seems to be an anomaly that needs to be looked at. I am not familiar with all the facts. I know Mike has looked into it a little also. I just wanted to bring that in on the record and perhaps the committee staff can check into that problem and see if it is a real problem.

Mr. **Ford**. There is another subcommittee that is dealing with welfare reform that has been trying to wrestle with that phenomenon of the disincentive to work for poor people that we have in the system. If a student comes from a family that is receiving public assistance and makes money to go to school or makes money to spend at the poolroom, it doesn't make any difference. It gets deducted from the family resources given by public assistance. It is unfortunate but nobody has been able to figure a way to get around it consistent with some kind of effective administration of the welfare program.

Mr. **Goldstein**. May we assume the record will remain open to provide documentary material to the committee?

Mr. **Ford**. Yes. Thank you very much. We will stand in recess until next Tuesday.

[Whereupon, at 12:50 p.m., the subcommittee recessed, to reconvene Tuesday, June 12, 1979.]

[Material submitted for inclusion in the record follows:]

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May 31, 1979

TO THE SUBCOMMITTEE ON POSTSECONDARY EDUCATION

HEARINGS ON THE WORK STUDY REGULATIONS

Gentlemen:

I would like to offer two suggestions which I hope would enable the Work Study program to provide real income to students and not continue what has become a "paper" money situation.

To explain what I mean by the term "paper" money situation, I will use Students "A" and "B" as examples.

> "A" is a dependent undergraduate student who has been awarded $2000 in Work Study money for Semester II of the year and $1600* for Summer employment. "A" is paid $2.90 an hour, works 20 hours a week for 15 weeks and 40 hours for the last two weeks in the semester. "A" has earned $1102, not the $2000 which the financial aid officer deemed absolutely necessary for her to have. ("A" is now $898 short of living expenses.) "A" earns the $1600 awarded for the Summer, but is told that she should have $1280 (or 80%) of this money in the bank, saved toward her tuition and this amount ($1280) is listed as savings on her Fall financial aid form. She now can add $1280 to the $898 she didn't get, and she is in reality now short $2178 of her $3600 award!
>
> "B" is a graduate student also awarded $2000 for Semester II and $1600* for the Summer. He is an independent student, back to school full time after several years' absence. He earns $3.50 an hour, works 20 hours a week for 15 weeks; 40 hours for the last two weeks in the semester and has earned $1330. He earns $1600 by the end of July and, when his employer can no longer afford to keep him, he cannot find employment for August. He is expected to have saved $960 (60%) of his earnings toward his tuition. (He's lucky-he found someone to sub-let his college-owned one room apartment for the $240 monthly rent and he went to visit friends for August.) He is now short $1630 of his $3600 award.

My first suggestion aimed at correcting the obvious inequities in this program is that students have the option of being paid a weekly salary, rather than an hourly wage. In fact any student who demonstrates a need of $1000 or more should have the option of a weekly salary, in order to actually be able to earn the award. [Obviously, as is the case now, if a student doesn't work, his/her supervisor does not sign a weekly salary sheet for the student.] Thus, Students "A" and "B" could have had the option of being paid $117.65 a week for 17 weeks and have earned $2000.05 (less the 5¢ in the last pay check) in Semester II; the Summer's $1600 could have been paid either hourly or by a 14 week spread of $114.60 a week (minus 44¢ from the last pay check).

in cooperation with Boston University Medical Center

My second suggestion is that a more realistic assessment of savings from Summer earnings be levied. In view of inflation, savings of 40% of earnings of dependent students' salaries ("A" would save $640) and 20% of an independent student's salary ("B" would save $320) seem reasonable. As it stands now, students clearly cannot save the amounts mandated under the regulations, therefore they save no money and begin the next term more in need than their financial aid forms show.

These two suggestions are minor in nature and bridging the gap between a student's recognized, stated financial need and actually providing the money would seem to have been the original intent of the Congress when the Work Study program was enacted. Any effort to enable the program's success would, I am certain, be welcomed by this Committee. I am grateful for the opportunity to offer my suggestions.

Sincerely,

Joan E. Harrington

Joan E. Harrington
Assistant to the Director

*Why is the figure of $1600 for Summer earnings used? Because that is the maximum award a student can receive this Summer, 1979, on this campus.

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June 19, 1979

Hon. William D. Ford
Chairman
Subcommittee on Postsecondary Education
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Coalition for Alternatives in Postsecondary Education, I want to express our thanks for the opportunity to testify at the recent hearing on the College Work-Study Program. Apropos of the testimony adduced at that hearing, I would like to submit for the record the attached correspondence, written by the Financial Aid Officer at San Francisco State University in response to our draft. While it differs from our proposal in two areas, the thrust is so well stated that I feel it appropriate to offer this response for the consideration of the Committee.

I should note that the concerns voiced by Director Gedney regarding work-study in the private sector have not gone unheeded by CAPE and its constituent organizations. While in the abstract the extension of CWS into the private sector would indeed serve a valuable educational and training end, we are not unmindful of the difficulties such a shift would entail, and, if not carefully designed, the potential risks inherent in it. Your comments on this point are clearly understood and are the subject of further review by our policy group.

We do firmly believe that strengthening the learning and training components of work-study will in no way diminish the ability of that program to continue to serve as a valuable instrument of financial aid. Our interest in strengthening the concept that work and learning can and should be linked does not carry with it any implication that such linkage should be mandated. The College Work-Study Program is certainly first and foremost a financial assistance program, and the ability to provide a work assignment which would serve the student's educational and vocational needs must be subordinate to that primary mission.

However, if we are already investing very substantial Federal funds to support the financial assistance aspect of Work-Study, the use of thse same dollars to support the improvement of work-learning linkages ought to be of great interest to this Congress. We believe that by encouraging such wokr-learning interactions, and providing incentives for insititutions to develop more work-learning related jobs, this Congress will be achieving both a valid educational goal and a major economy in the utilization of increasingly scarce resources.

At the same time, however, nothing in our recommendations should be viewed as in any way coercing any institution, or any individual student, to develop or accept a particular type of Work-Study job. We recognize that for some students the best and most desirable job may one that others might consider menial: that is an option the student should be free to elect and the institution free to offer. But conversely, the student should have the opportunity to choose a job which will serve his or her educational or vocational goals and interests, and the institution should have the resources and the incentive to make such opportunities available.

We only urge that this Congress insure that for those students who must work in order to remain in school, and who seek to use their scarce time in the pursuit of work-learning activities, their institution have the incentive and the resources to provide that opportunity. Should the institution choose not to so respond, or the student elect a different type of job, the existing program would remain untouched in its administration and impact. But for those students and institutions who do seek this additional way to use the resources of Work-Study, the revisions we have proposed would very much serve their interests.

It has also been brought to our attention that our recommendation for changes in Section 447 relative to increasing the availability of resources for job development may pose difficulties in terms of the initial years of operation. Since most institutions presently assign the overwhelming majority of students to on-campus non-work-learning related jobs, the fifty percent trigger may initially be too steep a barrier. We therefore propose the following language for a new subsection (c) of Section 447:

> (c) Agreements under subsection (a) may provide that for the fiscal year ending September 30, 1981, at least 30 percent, for the fiscal year ending September 30, 1982, at least 30 percent, for the fiscal year ending September 30, 1983, at least 40 percent, and for each fiscal year ending on or after September 30, 1984 at least 50 percent of the funds allocated under Section 446 (not including funds allocated under this Section) will be used for the support of employment, other than for the institution itself, which bears a direct relationship to the academic or vocational goals of the participating student.

We believe that this revision will allow for a reasoned phasing-in of substantial off-campus work-learning activities, without any serious risk of disrupting the availability of work-study as a financial aid resource.

We also share your concern over the risk of overly zealous regulation writing, which might have the effect of unduly restricting the ability of an institution and its students to arrive at appropriate work-learning activities. We therefore propose that Section 444 be further amended to add after our previously proposed amendment the following:

> (f) In carrying out the provisions of this section the institution shall retain the sole and exclusive right to determine the character and nature of employment under this Part which provide a work-learning opportunity consistent with the educational or vocational program or goals of the student.

We believe that such a provision would militate against the development of regulations or guidelines which might restrict the proper exercise of the academic judgment of the institution.

Several of the organizations which are participating in the work of the Coalition are in the process of compiling documentation to support our belief that the combination of work and learning can be carried out fully consistent with and without infringing upon the financial aid aspects of the College Work-Study Program. We hope you will find such documentation helpful in the deliberations of the Committee.

Sincerely,

Michael B. Goldstein
Counsel
Coalition for Alternatives in
Postsecondary Education

cc: Dr. Robert F. Sexton, General Secretary, CAPE
MBG/ljb
bcc: Mr. James Harrison
Dr. Thomas Wolanin

San Francisco State University

1600 HOLLOWAY AVENUE • SAN FRANCISCO, CALIFORNIA 94132

OFFICE OF STUDENT FINANCIAL AID

May 31, 1979

Mr. Michael B. Goldstein
General Council Coalition for
Alternatives in Post-Secondary Education
c/o: Dowell, Lohness and Albertson
1225 Connecticut Avenue
Washington, D. C. 20036

Dear Mr. Goldstein:

President Romberg forwarded a draft of the proposed changes to the Student Aid Programs sponsored by the Coalition for Alternatives in Post Secondary Education. I reviewed that document and wish to make several comments. Overall, I found it to be a most cogent and well-constructed proposal. My comments will focus on the recommendations for revisions in the College Work-Study Program.

1. Statement of Purpose

I agree with your assessment that "it is the time to restore the vitality to Work-Study as a program which serves the student, the institutions and the community". Work-Study provides an excellent vehicle for both students and institutions to establish a positive working relationship with various representatives of the community in which the institution operates.

Clearly, part of the shift in emphasis must be derived from the language and the intent of the law The proposed text for Section 441.(a) is vital to this shift. Under the auspices of the Cooperative Education Project here at San Francisco State University, we have begun to address this very issue. We have a working relationship with the Cooperative Education Office, but feel that we could establish an even tighter and more successful relationship with the redirection of federal authorization legislation. We support the language you propose.

2. Job Development

Optimally, we would like to see a self-supporting work-study operation which derives its funds from federal and agency administrative expense allowances. We are quite interested in job development at this institution, but due to lack of resources, have been unable to pursue it to the extent that we feel is necessary. To effectively promote the genuine "work-study" quality to this program, job development is requisite. I support your proposal to provide increased cost allowance which would encourage institutions to develop more effective off campus jobs. Equally as important as job development is job placement. Students need assistance in finding appropriate jobs which would meet their vocational and/or educational needs. I hope that these funds would be adequate to permit institutions to develop both job locations/development as well as adequate placement services.

3. Off-Campus Employment Opportunities

I agree that students can reasonably expect to get accurate information about the range of job possibilities at off-campus placements. I also acknowledge that all too frequently, work-study employment has gone to bolster the administrative operations of the institution. I am concerned however, with the effect of the suggested language of section 493. I believe that the proposed language of this section is unnecessarily specific and is another example of inappropriate federal intrusion into an area of institutional prerogative. This institution, like many other institutions, provides a student employment service as well as a career planning and placement service. We have a continuing commitment to the vitality of these services. We also take the spirit of the student consumerism regulations seriously and in our publications offer information about placements available to students through the Work-Study Program. For these reasons, I believe that it is unnecessary to include the proposed language specifying off-campus employment opportunities under Section 493.(a) of the Student Consumerism Regulations.

4. Work-Study in the Private Sector

I question the appropriateness of Work-Study funds being used to subsidize employment in the private sector. I also doubt Congress' willingness to provide federal funds for employment in this area. A more effective approach would be for Congress to make a commitment to provide the necessary administrative resources to facilitate student placement in the private sector.

During an academic year, students could have part-time jobs and be paid at a rate commensurate with their experience and skills. The institution could provide the administrative infrastructure to coordinate the educational and vocational interests of the student; in other words, to see that interested students are directed toward appropriate firms. If Congress and the higher education community were to demonstrate genuine commitment, I believe private businesses would begin to see that the program serves their best interests as well.

5. Student Living Expenses During a Non-Enrollment Period

The recommendation regarding employment during non-enrollment period addresses one of the most glaring paradoxes of the Work-Study Program. If the intention of College Work-Study is to encourage student employment in meaningful jobs, students are ultimately penalized for participating during the summer non-enrollment period. At San Francisco State and at other institutions, the maximum award is tied directly to the amount of expected student contribution; it limits the student's potential participation and "locks" into place that portion of the student's award while other students who are employed through their own personal search have a continued flexibility in their standard budget later in the academic year. This is due to the current regulation's unreasonable assumption that either 80% of a dependent student at home or 60% of an independent student's salary away from home will be available for the following academic year. I believe that no student in this high cost metropolitan area could be expected to save 60% of a salary which averages around $525.00 a month. By giving individual institutions the discretion to determine adequate deductions for noneducational living expenses during a non-enrollment period, institutions can adjust for the differing costs of living in a particular geographic area. If nothing else in this proposed package of recommendations is enacted, this one section should be.

6. Comprehensive Study of "Best Practices"

I believe that it makes good management sense to have a comprehensive and large scale study of the "best practices" within the College Work-Study Program. I agree that particular emphasis should be laid on those programs which are successfully providing financial assistance to their students, as well as academically and vocationally related work experience. If Congress offers a good faith commitment to take the review seriously, I believe meaningful change could be effected by such a study.

I hope that these comments shed a bit of light on my perspective regarding your proposal. If I may assist you further, please contact me. I look forward to hearing from you.

Sincerely,

Ellis C. Gedney

Ellis C. Gedney
Director

ECG:jah

cc: Paul F. Romberg, President
A. L. Leidy, Comptroller

aascu

American Association of State Colleges and Universities One Dupont Circle/Suite 700/Washington, D.C. 20036 (202) 293-7070

June 13, 1979

The Honorable William D. Ford
House of Representatives
Washington, D. C. 20515

Dear Rep. Ford:

AASCU appreciated the chance for Dr. Frank Matsler to be heard on the College Work-Study program on June 7. However, I felt that the emphasis in our testimony, on encouraging colleges to develop CWS programs which are more closely related to students' academic and career interests, was lost to some extent because of the discussion of whether such jobs should be permitted in profit-making enterprises.

AASCU does not favor extending CWS to the profit sector. The points you raised, about the difficulty in monitoring such jobs to be sure that they do not displace workers or result in federal subsidy of jobs which would otherwise be paid for by private enterprise, are ones we would share.

We do feel that more can be done to help make jobs relevant and useful to the student and society through expansion of the Job Location and Development program. USOE got the regulations out very late in 1978, which appears to be the main reason not many colleges participated this year. But USOE is now actively campaigning to encourage colleges to do more with this program, and I am sure it will grow.

Allowing somewhat more funds for Job Location, and allowing it to be used for on-campus as well as off-campus jobs, would help a good deal, we believe.

We also believe that, like SEOG, this program should be extended to middle-income students while providing for the poor first. We are working with ACE and others now on specific legislative language to achieve this purpose.

ACE and other groups have also urged that up to 20 percent of the funds in CWS, SEOG, or NDSL be transferable among any of the three programs. We feel that this would also help give all of these programs more flexibility.

Again, thank you for the opportunity to testify.

Sincerely yours,

John

John P. Mallan
Assistant Executive Director
for Governmental Relations

cc: Frank Matsler
Thomas Wolanin

Allan W. Ostar, Executive Director

AMERICAN BAR ASSOCIATION

OFFICE OF THE PRESIDENT
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CHICAGO, ILLINOIS 60637
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PLEASE REPLY TO
1800 M STREET, N.W.
WASHINGTON, D.C. 20036

June 13, 1979

Honorable William D. Ford
Chairman, Subcommittee on
Postsecondary Education
Committee on Education & Labor
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Your Subcommittee is in the process of holding extensive hearings on the Higher Education Act in anticipation of considering the reauthorization and possible amendment of that legislation. As President of the American Bar Association, I am taking this means of informing you and your fellow Subcommittee members of the Association's support for the continuation and strengthening of two programs now authorized by the Act: the Title IV, Part D Council on Legal Education Opportunity program, or "CLEO"; and the Title XI clinical legal experience program.

CLEO, established by our Association and other legal groups in 1968, is a proven program whose principal thrust is to ensure equal educational opportunity for students from economically and culturally disadvantaged backgrounds. Since its inception CLEO has enabled over 1200 such students to receive a law school education, not counting the 500 CLEO scholars now in school.

The program's continued effectiveness is threatened, however, by the fact that its authorization ceiling has kept the program at a $1 million level for the past five years, during which time the cost of living has risen almost 40%. The program has kept its stipends during this period at the same level of $1000 per student in order to avoid a drastic reduction in the number of students. But these $1000 stipends are now barely one-fourth the amount of stipends provided under other Title IX programs.

We would urge that the current authorization ceiling be raised substantially so that the individual fellowship stipends can be increased to appropriate levels and so that more disadvantaged students can participate in the program. I believe this additional funding will be a sound investment in our nation's future.

The clinical legal experience program likewise deserves reauthorization. There have been numerous calls in recent years for improved training of law students to prepare them for the realities of client representation upon graduation. Clinical programs represent a significant effort of law schools to provide students with such an educational experience -- an experience which not only familiarizes the student with the forms and procedures necessary to process a legal case from start to finish but which forces the student to assume major responsibility, under appropriate supervision, for the numerous decisions that must be made in handling a legal matter.

The cost of such programs, however, is much higher than for traditional large lecture class approaches to legal education. The law schools have made substantial investments in this area -- an estimated $16 million per year in recent years -- but are finding it increasingly difficult to divert additional resources to this innovative form of instruction. The federal government, which has appropriated funds for this program each of the last two years, should continue to play an active part in supporting this socially-beneficial educational undertaking.

Sincerely yours,

S Shepherd Tate

S. Shepherd Tate

SST:sss

The Council of Chief State School Officers, an organization representing the commissioners and superintendents from the 50 states and seven extra-state jurisdictions welcomes the opportunity to participate in these hearings concerning the re-authorization of Title IV of the Higher Education Act of 1965. While not all of our members are charged with the responsibility for administering higher education programs in their own states, each has an interest in, and concern for, strengthening linkages and coordination among all levels of education within respective states. In addition, many SDE's are charged with implementing a policy relating to student financial aid or actually have an administrative role in student assistance.

In response to the November 1978 invitation of Chairman Ford to submit suggestions for amendments to the Higher Education Act, the Council's Committee on Post-Secondary Education developed recommendations on several of the programs authorized by the statute. This policy statement was adopted subsequent to the Council's annual legislative meeting in February 1979.

The Council recognized that a major national priority in higher education is the continued expansion of post-secondary educational opportunities for students. Student assistance programs are aimed at providing financial resources to students who would otherwise be unable to attend higher education institutions because of a lack of such resources. This goal is shared on the state level as well, and most states now have some form of state financed student assistance program. There remain, however, many students who have definite financial need but who do not presently benefit from any form of student aid. Accordingly, the Council recommends certain changes in the Basic Educational

Opportunity Grant Program (SEOG), and the State Student Incentive Grant program (SSIG).

The Basic Educational Opportunity Grant program (BEOG) is the largest of the federal programs providing student assistance, and is totally funded from federal sources. It is based on the concept that any student who needs aid to attend a post-secondary institution should receive it. Eligibility is based on an index which takes into account standard allowances as well as income and asset expectation. At present, each eligible student may receive a BEOG for up to four years of attendance at an institution of higher education. Data from several states indicate, however, that many students need more time to complete the course work required to receive a degree. It is estimated that expanding BEOG's from four to five years would represent a more reasonable time period for these students.

The Council also believes that the calculation of assets should be excluded from the "eligibility index." Although the U.S. Office of Education has increased the number of excluded assets for eligibility in recent years, this effort must be intensified. The asset test has proven to be a poor yardstick for measuring wealth, because many of the assets which are still included are non-liquid. Home ownership, for instance, is not a realistic measurement of ability to pay, especially in an inflationary period when values of homes have increased many times over the purchase price. Small business and farm assets may be substantial, but yield little disposable income.

The recent increase in the ceiling for fiscal 1979-80 represents a major improvement in the BEOG program. The recognition that student aid must keep pace with the rising costs of attendance is significant.

More action is necessary, however, to ensure that BEOG fulfills its purpose of providing meaningful assistance to needy students. The Council recommends that provision be made to adjust the maximum award periodically to respond to inflation and increased costs of attendance.

The second dimension of the concept of providing equal educational opportunity involves choice. The Supplemental Educational Opportunity Grant Program (SEOG) is aimed at providing students access to a range of institutional choices.

SEOG is 100 percent federally funded, and aids students who need assistance in attending high cost institutions, or who qualify for little or no assistance from the Basic Grant program. However, because of the new clientele now being serviced by most institutions, the Council believes eligibility for SEOG should be expanded in the following ways:

(a) Due to shifting population trends and in order to equalize the effectiveness of the Supplemental Grant program among states that vary in their costs of attendance, the Council recommends that the SEOG funds be allocated by states based on the number of undergraduates in the state multiplied by the average costs of attendance at all post-secondary institutions in the state. The federal government should apportion funds within that allocation directly to each eligible institution.

(b) To expand educational opportunities for adults and to broaden their participation in society, a provision should be added to the Supplemental Grant program to require institutions to make efforts to identify and aid qualified persons of any age who are of exceptional financial need, and to encourage them to continue their education at the post-secondary level.

(c) The Council recommends that institutions be authorized to make Supplemental Grants to students who are studying less than half-time.

A third federal initiative aimed at providing equal educational opportunity at the post-secondary level is the State Student Incentive Grant Program (SSIG). SSIG assistance is provided on a 50-50 state/federal cost sharing basis as an incentive to states to expand their own student aid programs.

Despite the flexibility provided to states under this program, provision should be made for increased coordination in student aid. Accordingly, the Council believes that federally funded student aid programs, whether institution-based or administered through state agencies, should be responsive to state needs and consistent with state guidelines.

Although the effects of inflation have been recognized in BEOG programs, the ceiling on individual SSIG grants has not been raised since 1972. The Council recommends that adjustments in the SSIG program be made concurrently with BEOG's to respond in a similar way to the rising costs of attendance.

A fourth component of federal student financial assistance programs is the College Work Study Program (CWSP) which was created to provide part-time and vacation period employment for students. The program fulfills two purposes: first, students needing assistance are provided with work which accommodates their academic schedules; and, second, institutions receive substantial amounts of needed work at a reduced cost. The Council believes that the relationship should be strengthened between CWSP and student employment opportunities. The concept of CWSP includes a meaningful relationship between a student's academic interests and the assigned work. To that end the Council recommends that employment in the private sector (business, industry, etc.) be permitted.

Title IV of the Higher Education Act of 1965 also authorizes several programs designed to expand post-secondary educational opportunities for the disadvantaged. Grants and contracts are authorized to support the "TRIO" programs: Talent Search, Upward Bound, and Special Services for the Disadvantaged. In addition, services are provided to low income and disadvantaged students through Educational Opportunity Centers and the Service Learning Center Program, and through training programs for staff and leadership personnel who specialize in the delivery of services to disadvantaged students. Areas of overlap exist, however, among these programs as well as some state programs. Much more cost effective delivery of both state and federal services to disadvantaged students can be achieved if greater coordination is provided between these programs. The Council recommends, therefore, that:

(a) Educational Opportunity Centers be combined with the Talent Search program and administered under a state plan adopted by the state governing or coordinating agency.

(b) Upward Bound be continued and strengthened. The Commissioner should have the ability to adjust program eligibility criteria under certain conditions. The Commissioner would have discretionary power to adjust eligibility criteria in states having established criteria to define the educational and economically disadvantaged for potential post-secondary populations.

(c) Because the activities of Service Learning Centers are part of the mainstream services higher education institutions provide and are used by many students who are not disadvantaged, that program should not be re-authorized. The authorization, contained in the Service Learning Centers program, should be transferred to Special Services for the Disadvantaged and Talent Search/Educational Opportunity Centers.

(d) The authorized training activities should be continued and funded. Eligibility for these activities should be expanded to include not only those working in federally funded programs, but also those in state or institutional programs which (in the judgment of the Commissioner, with the advice of the state governing or coordinating agency) have essentially the same clientele. In addition, the program should be expanded to include guidance counselors and other individuals who advise students on financial aid opportunities.

Title IV, Part A, Subpart 5, authorizes the Education Information Centers (EIC) program which provides for grants to be made to states for the cost of planning, establishing, and operating Education Information

Centers "to provide educational information, guidance, counseling, and referral services for all individuals, including individuals residing in rural areas." A fundamental concept within that legislation calls for seeking out all persons who might benefit from post-secondary education and making them aware of the opportunities which exist. In addition, information designed to help the individual overcome cultural or financial barriers, physical handicaps, educational deficiencies, or lack of information about available programs are to be rendered so that individuals, who formerly would have never considered post-secondary education, would, in fact, come to recognize their right for further education as well as the means by which to attain it.

This new program received a limited appropriation for the current fiscal year, and the states are already developing statewide implementation plans or actually funding selected Centers at this time. Accordingly, the Council recommends:

(1) that the authorization be continued for Education Information Centers along with an adequate appropriation to insure that the program has a chance to succeed;

(2) that the program be coordinated at both the national and state levels with other "information" programs such as the National Occupational Information Coordinating Committee, State Occupational Centers, and the "TRIO" programs.

Finally, the Council is concerned about the issue of institutional eligibility for federal programs. The Council believes that the Federal-State partnership in education must be further strengthened in evaluating the quality of services provided in post-secondary institutions. The coordination of federal and state criteria for determining quality and integrity of post-secondary institutions is imperative to assure that institutions participating in federal programs meet eligibility standards and operate programs in accordance with federal policy.

In a January 1979 report to the Congress, the General Accounting Office found that "the Office of Education's process for establishing school eligibility to apply for participation in Federal aid programs does not assure that consumer and Federal interests are being protected." The report discusses "the need to increase State and Federal efforts to address potential consumer abuses in education and to improve the Office of Education for recognizing accrediting associations."

At present, institutions must be accredited by an accrediting agency recognized by the U.S. Commissioner of Education and must generate credit accepted for transfer by three or more accredited institutions. The Council believes that stronger assurances about the quality of institutions must be made available so that abuses can be corrected and non-traditional legitimate programs can participate in federal programs. The Council proposes an alternative accreditation process which would co-exist with the present accreditation process and would provide an alternative method for achieving eligibility.

An appropriate state agency would be designated in each state as a federally recognized approving agency to approve (or accredit) post-secondary educational institutions (as defined in Section 435 of the Higher Education Act of 1965, as amended) and eligibile vocational institutions, or the programs (courses of study or curricula) of such institution. Decisions of the agency would be relied upon by a federal officer or agency in connection with participation in any program of federal assistance to post-secondary or vocational educational institution.

Each state (as defined in Section 1201 of the Higher Education Act of 1965 as amended) would designate an existing state agency or commission to be the federally recognized approving agency for this purpose in the state. The agency to be designated would be either:

(a) a state approving agency for the Veterans Administration; or

(b) a state agency determined by the U.S. Commissioner of Education to be a reliable authority as to the quality of public post-secondary vocational education, pursuant to Section 438 (b) of the Higher Education Act of 1965, as amended; or

(c) a state commission established or designated pursuant to Section 1202 of the Higher Education Act of 1965, as amended.

The U.S. Commissioner of Education would promulgate criteria for the recognition as a reliable authority as to the quality of the education or training offered and as to the integrity of the institution or program, of the agency or commission designated by each state.

The U.S. Commissioner of Education would recognize each designated state agency or commission which is a reliable authority with respect to quality and integrity in accordance with the criteria promulgated, and grant provisional recognition to each designated state agency or commission which the Commissioner believes is making substantial progress toward meeting such criteria. The Commissioner would annually publish in the Federal Register a list of those designated state agencies which are provisionally recognized.

At any time after a designated state agency or commission is recognized by the U.S. Commissioner of Education as substantially meeting the criteria promulgated, a state may designate that agency or commission as the state approving agency for the Veterans' Administration.

The Federal Trade Commission would have no jurisdiction over any post-secondary educational or vocational institution which is approved (or accredited) (or whose programs, courses of study, or curricula are so approved or accredited) by a designated state agency or commission recognized by the U.S. Commissioner of Education as substantially meeting the criteria he promulgates.

The U.S. Commissioner would be authorized to make grants to any designated state agency or commission which is recognized or provisionally recognized to assist in carrying out its duties. Such grants would not exceed the appropriation made by the state for the support of such activities.

The Council appreciates this opportunity to express its views on this most important education program. We hope that our recommendations will be helpful to you during your consideration of improvements to the Higher Education Act of 1965.

# # #

MATTHEW J. RINALDO
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Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEES:
INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEES:
OVERSIGHT AND INVESTIGATIONS
CONSUMER PROTECTION AND FINANCE
SELECT COMMITTEE ON AGING
SUBCOMMITTEE:
HUMAN SERVICES

June 20, 1979

The Honorable William D. Ford
Chairman
Postsecondary Education Subcommittee
A619 HOB Annex 1

Dear Mr. Chairman:

I understand your subcommittee this year will consider legislation to reauthorize Title IV of the Higher Education Act, which deals with student assistance programs.

I am enclosing with this letter a draft proposal which, in my estimation, could be of significant impact for millions of middle-income students. I would appreciate a review of this proposal by your subcommittee during its deliberations on Title IV so that any adjustments may be made in it before it is fashioned into legislative form.

Additionally, I would appreciate your reaction and any suggestions you might have on the proposed program.

Best personal regards.

Cordially,

Matt Rinaldo

MATTHEW J. RINALDO
Member of Congress

MJR/p

WORK YOUR WAY INTO COLLEGE PROGRAM

This proposal would amend the Higher Education Act by instituting a program that would meet two important objectives: it would make a college education more generally available; and, at the same time, it would help fill jobs in critical public service functions, at minimum public cost, by attracting students who are more mature and committed to the national welfare and public interest.

Under the program, students would fill public service jobs in critical labor shortage areas such as nursing homes, schools for the retarded, mental hospitals, health clinics, poverty projects, environmental protection, neighborhood crime control, aid to the handicapped, prisons, and juvenile correction facilities, or other job categories designated as labor deficient by the governor of a state in an annual report.

For each 12 months of such service at wages not to exceed 125% of the federal minimum wage (or the normal wage paid for such work, whichever is lower), a student would be eligible for a three per cent government-insured loan covering tuition for four terms. The maximum number of terms would be eight (four years of undergraduate study); the loan would be required to be repaid within ten years following graduation or withdrawal from college.

In addition to a loan, eligible individuals would receive direct federal tuition cash grants up to a maximum of $1,000 in any one year. (Such grants could also be matched by the state.) Grants would be awarded annually for as long as the student is enrolled in a qualified public or private college to a maximum of four years. They would be awarded on the same basis as the low interest loan: every twelve months of public service would entitle the individual to a grant covering four terms, up to a maximum of eight terms for two years of public service work.

Those eligible must be at least 17 years old; citizens of the United States; and graduates of a state-certified high school or recipients of a state-approved high school equivalency diploma. Applicants would be required to pass a minimum achievement test (as established by the state education commissioner) in reading, math, English composition, and science; the test would be administered by local school districts, and students would be permitted to take the test no more than twice. In lieu of such a test, the commissioner may utilize standardized achievement tests accredited by the state.

The governor in each state would annually publish a list of critical public service jobs. Students would be selected and placed by government officials, who would be encouraged to find public service employment as close as possible to the residence of the student applicant; in no case, however, would a regular employee of a public service institution or nonprofit agency be replaced in order to accommodate a youth corps service worker at a lower wage. The State Commissioner of Labor, or someone designated by the governor, would have the authority to review and arbitrate any complaint that a regular full-time employee in an institution had been displaced by a youth corps service worker.

Congress would annually appropriate funds to cover 20% of the expense of the salaries of these public service jobs; the remainder would be the responsibility of the states. Nonprofit institutions would pay the entire salaries for the students based on established rates of compensation; any state, however, would be able partially to compensate these nonprofit private institutions under the program.

913

REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

TUESDAY, JUNE 19, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:45 a.m., pursuant to call, in room 2261, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Brademas, Bailey, and Buchanan.

Staff present: Thomas R. Wolanin, staff director; Patricia F. Rissler, deputy staff director; William C. Clohan, Jr., minority assistant education counsel; and Jennifer Vance, minority legislative associate.

Mr. Bailey [presiding]. The Subcommittee on Postsecondary Education will come to order for the purpose of continuing hearings on the reauthorization of the Higher Education Act and related measures.

Today's hearing will continue our consideration of the student financial assistance programs authorized by title IV of the Higher Education Act. This morning, our focus will again be on the student loan programs—the guaranteed student loan program and the national student direct loan program.

The NDSL program was created by the National Defense Education Act of 1958, and it is the oldest of our Federal student financial aid programs. Loans are made to students on the basis of need by schools using 90 percent Federal capital. Students can borrow up to a total of $10,000 for undergraduate and graduate studies. Students repay the loans with 3 percent interest, and there are some opportunities for deferring or canceling repayment.

Since 1958, the NDSL program has provided nearly $6 billion in loans to more than 5 million students.

The guaranteed student loan program was created by the Higher Education Act of 1965. Loans are made to students primarily by commercial lenders using private capital. In 39 States, the loans are guaranteed through State guarantee agencies and the Federal Government reinsures the loans against default, death, or disability of the borrower. In the remaining States, the Federal Government also pays the student's 7-percent interest while the student is in school as well as paying a special allowance to the lender to make these loans as attractive as other lending opportunities.

With the passage of the Middle Income Student Assistance Act, all students, regardless of their family income, became eligible for the in-school interest subsidy.

Students can borrow up to a total of $15,000 for graduate and undergraduate studies. Students repay the loans with 7-percent interest and the Federal Government continues to pay the special allowance to the lenders.

Since 1965, the guaranteed student loan program has provided approximately 12 million loans to students. These loans have had a total value of nearly $14 billion, and the total cost ot the Federal Government has been close to $4 billion.

Our witnesses this morning will include representatives of associations of postsecondary institutions who did not have an opportunity to testify at our last hearing on loans, June 5, because of the time constraints and business on the floor of the House.

The panel today consists of Charles Saunders, vice president for government affairs, American Council on Education; William Ihlanfeldt, vice president for institutional relations, Northwestern University, representing the Consortium on Financing Higher Education, accompanied by Mr. Jerrold Gibson, director of fiscal services, Harvard University; Ms. Bette Hamilton, American Association of Community and Junior Colleges; and Willis Weatherford, president, Berea College, Berea, Ky., representing the National Association of Independent Colleges and Universities.

Let the record show the unanimous-consent request to enter all the written testimonies in the record.

Let's begin with Mr. Charles Saunders, vice president for government affairs, American Council on Education.

STATEMENT OF CHARLES SAUNDERS, VICE PRESIDENT FOR GOVERNMENT AFFAIRS, AMERICAN COUNCIL ON EDUCATION

Mr. SAUNDERS. Thank you very much, Mr. Chairman.

I appreciate the opportunity to summarize the views of the American Council on the student loan programs. This committee has heard, by this time, a great deal about the problems in the loan programs. We don't have any new major changes or new programs to recommend, only a few relatively technical proposals for amending existing programs because our review of the issues suggests to us that both the national direct student loan program and the guaranteed student loan program have served the Nation well, and that incremental improvement is preferable to radical surgery.

Now there are several options for addressing several principal problem areas, which are identified at length in my testimony, and which I am not going to read, but I would like to summarize our views on five broad objectives of the loan programs in which these problems tend to appear.

The first is the provision of adequate capital to make loans available to needy students. The proposal to establish a national loan bank in place of existing programs, or to add new programs, or to supplement loan capital already available, raises very fundametal questions which are discussed on page 6 of my testimony.

One approach, outlined by Secretary Califano in his testimony before the subcommittee on March 20, seems to offer hope of maintaining many of the strengths of the current program, while establishing a clearer rationale and relationship for both. However, the administration simply has not provided more detailed information, and we have not been able to analyze the proposal sufficiently to provide any assurance at this time that the various concerns that we have about the loan bank proposals have been addressed, particularly in such areas of concern as the potential impact of the program on State supported higher education, and the exclusion of many students now covered by restricting subsidized loans to those with documented needs.

Another critical concern for assessing any proposals for a national loan bank is the potential detrimental effect on support for student grant programs which could result from the creation of an entitlement loan program. In the meantime, we concluded that it is wise for Congress to maintain capital contributions to the direct loan program, and to encourage further State efforts to make loan capital available under GSL.

The second area is the equitable allocation of loan capital to needy students. The first point we want to make is that there will always be a finite amount of loan capital available no matter what approach is taken to this problem. Wherever Government subsidy is involved, there is a Federal responsibility to see that the subsidies are equitably available to eligible students in whatever State they attend college.

Despite repeated efforts by this and previous administrations to reduce or eliminate the direct loan program, the guaranteed loan program alone cannot assure equitable allocation of loan capital. But we believe that it is important for Congress to clarify the purpose of the direct loan program of assuring loan access to needy students and those who are unable to obtain help from the private market. We have made recommendations to this committee to deal with that question.

On the matter of efficient collection procedures, and sound administrative requirements to achieve reasonable default levels, we have made a recommendation to permit the Federal collections to be applied to future NDSL appropriations rather than to revert to the Treasury, and that is outlined on page 12 of my testimony.

We have also made a recommendation to increase the administrative allowance to 6 percent for the campus aid programs, including the direct loan program, and to provide an automatic payment of the administrative allowance in the guaranteed student loan program.

We believe that the collections problem should be dealt with by strengthening existing mechanisms, and not by assigning the responsibility to the Internal Revenue Service, and our reasons for that are detailed on pages 12 and 13.

We have made recommendations for lender forbearance, and we support greater effort to provide for loan consolidation and more flexibility, but there are simply too many unresolved issues revolving around the various proposals for income-contingent or income-calibrated loan repayment, to endorse any such plan at this time.

Our fourth objective is a sufficient level of Government subsidy for the loan programs. Here we believe the current levels of Government subsidy in the NDSL and GSL programs are necessary and not unreasonable considering the benefits to students.

In the absence of uniform availability of capital under GSL, additional Federal loan capital will continue to be needed under NDSL, and some additional subsidy would probably be necessary to guarantee more flexible repayment, or to provide some form of income-contingent repayment.

The tradeoffs inherent in such proposals must be carefully weighed against the need to sustain support for necessary expansion of the grants and work study program. This is simply to say that it is important that the loan subsidies do not reach a point of jeopardizing support for the grant funds.

Our final objective for the loan programs is coordination of those programs to avoid overburdening students with debt, and simplification of the programs simply to make them easier to administer.

We are recommending modest increases in aggregate loan limits to reflect increased costs. Specifically, an increase to $10,000 for undergraduate loans, and a limit of $20,000 for graduate loans. The limit should not be set so high as to alter the established pattern of financing undergraduate education. In the areas of graduate education, we feel there are unique problems which require special attention, so our proposal for increasing aggregate loan limits on the graduate side provides for discretionary action on the part of the Commissioner to permit larger aggregate loans to reflect the cost of training for specific professional fields.

In summary, our recommendations are that improvements in the existing programs be made incrementally rather than through the creation of additional programs, with the intense confusion that will certainly result. Legislative proposals to establish new student loan programs in other agencies and Cabinet departments should be discouraged, and all federally sponsored student loans, including those currently administered outside the U.S. Office of Education, should be placed under the cognizance of the congressional authorizing committees for higher education. We feel that this would make it possible for the Congress to maintain much better and consistent oversight of the programs.

That concludes the main points we can make at this time.

[The prepared statement of Mr. Saunders follows:]

PREPARED STATEMENT OF CHARLES B. SAUNDERS, JR., VICE PRESIDENT FOR GOVERNMENTAL RELATIONS, AMERICAN COUNCIL ON EDUCATION

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to summarize the views of the American Council on Education on the student loan programs of Title IV HEA. The attention already focused on problems involving the administration of these programs makes it evident that options for modification will be a major focus of the reauthorization process.

At this time we have no major changes or new programs to recommend to the Subcommittee; only a few relatively technical proposals for amending existing programs. Our review of the issues suggests that both the National Direct Student Loan program and the Guaranteed Student Loan program have served the nation well, and that incremental improvement is preferable to radical surgery. However, a number of options for addressing several principal problem areas should be examined.

Suggestions for change focus on problems in achieving one or more of the following broad objectives:

1. Provision of adequate capital to make loans available for low-income or middle-income students to finance a portion of their postsecondary education.

The very fundamental questions raised by most of the proposals to establish a national loan bank in place of existing programs, or to add new programs to supplement loan capital already available, deserve careful attention. One approach outlined by Secretary Califano in his testimony of March 20, seems to offer hope of maintaining many of the strengths of the current programs while establishing a clearer rationale and relationship for both. However, the Administration has not yet provided enough details for thorough analysis, particularly in such areas of concern as the potential impact of the program on state support of higher education, and the exclusion of many students now covered by restricting subsidized loans to those with documented need. Another critical concern in assessing any proposal for a national loan bank is the potential detrimental effect on support for student grant programs which could result from the creation of an "entitlement" loan program.

In the meantime, it would seem wise for Congress to maintain capital contributions to the Direct Loan program and to encourage further state efforts to make loan capital available under the GSL program.

2. Equitable allocation of loan capital to needy students.

There will always be a finite amount of loan capital available, whether through appropriations or private lending sources. Wherever government subsidy is involved, there is a federal responsibility to see that the subsidy is equitably available to eligible students in whatever state they attend college. Despite repeated efforts by this and previous Administrations to reduce or eliminate the Direct Loan program, the Guaranteed Loan program alone cannot assure equitable allocation of loan capital. Therefore we believe it important for Congress to clarify the Direct Loan program's purpose of assuring loan access for needy students and those who are unable to obtain help from the private market.

3. Efficient collection procedures, and sound administrative requirements to achieve reasonable default levels. These are both vitally important, but at the same time, flexible repayment arrangements should be provided for recipients who experience difficulty in making payments after they leave college.

This objective is closely related to the first two: some of the problems with collections and defaults under NDSL and GSL are the inevitable results of making loans to a young, mobile student population with no collateral and no work experience; other problems stem from poor management on the part of both institutions and government.

We believe that the collections problem should be dealt with by strengthenin existing mechanisms, and not by assigning responsibility to the Internal Revenue Service. We also support greater efforts to provide for loan consolidation, and variable repayment schedules or extension of the maximum repayment period under certain conditions, but there are too many unresolved issues regarding the cost and equity of the various proposals for income-contingent or income-calibrated loan repayments to endorse such a plan at this time.

4. A level of government subsidy for the loan programs which is sufficient to achieve the goals stated above.

We believe the current levels of government subsidy inherent in the NDSL and GSL programs are necessary and not unreasonable considering the benefit to the students. In the absence of uniform availability of capital under the GSL program, additional federal loan capital will continue to be needed under the NDSL program. Some additional subsidy would probably be necessary to guarantee more flexible repayments or to provide some form of income-contingent repayment. The tradeoffs inherent in such proposals must be carefully weighed against the need to sustain support for necessary expansion of the federal grant and work-study programs.

5. Coordination of federal loan programs with other federal and state aid programs to avoid overburdening students with debt; and simplification of the programs to make application and repayment procedures less burdensome to students, and to reduce the administrative workload of institutions.

The question of appropriate limits on student indebtedness deserves careful consideration. We recommend modest increases in aggregate loan limits to reflect increased costs, but the limits should not be set so high as to alter the established pattern of financing undergraduate education. The unique problems of graduate education require special attention: aggregate loan limits should be substantially increased at the Commissioner's discretion to reflect the costs of training for specific professions.

The long-range goal of a single federal loan program should be approached incrementally, through improvements in the GSL and NDSL rather than through the creation of additional programs with attendant confusion for students and administrative burden for institutions. Legislative proposals to establish new student loan programs in other agencies and cabinet departments should be discouraged, and all federally sponsored student loans, including those currently administered outside the U.S. Office of Education, should be placed under the cognizance of the congressional authorizing committees for higher education.

This summarizes our views on the objectives to be sought in modifying the loan programs. Following is a more detailed discussion of the issues:

Options for Improving Capital Availability

In a letter to ACE dated February 12, Deputy Commissioner of Student Financial Assistance Leo Kornfeld stated: "We do know that limited loan access is a serious problem--especially for low income families...Moreover, complaints about loan access continue to come in from every section of the nation--including some of the highest volume states."

One way to deal with this problem is already being pursued. Following the mandates of the 1976 HEA amendments, OE is encouraging states to set up loan programs which would provide funds for all students who desire to borrow. Its efforts so far have met with mixed success. In his letter, Deputy Commissioner Kornfeld noted: "The Office of Education's encouragement of a stronger state level role in assuring GSL access has drawn attention to the problem and has probably increased guarantee agency efforts in promoting commercial lender participation. It has not, however, resulted in significant new state efforts to back up commercial lending through second-resort sources of capital..."

In states which are not willing or able to establish such comprehensive systems, USOE may attempt to identify financial institutions which will take the responsibility for all students in the area regardless of income. But it is difficult to gauge the capacities of the states in the absence of clear guidelines implementing the 1976 amendments, due to the lack of final OE regulations.

USOE should continue its efforts to improve the availability of loan capital by working with the states and through other administrative steps. Continuing problems of inadequate capital can be expected, however, not only for high-risk students, but also for middle-income students in certain parts of the country. Therefore continuation of federal capital contributions to the NDSL program will be essential in the years immediately ahead.

The liquidity problems of middle-income families have prompted various legislative proposals for new loan programs. One would establish a revolving fund in addition to existing programs, requiring large initial appropriations, to provide undergraduates with loans of up to $5,000 a year. Although intended to become self-supporting, the long-term costs to the federal government would be extremely large. Such a plan could also result in direct federal involvement in institutional pricing and enrollment policies, which the higher education community strongly opposes.

Proposals for a national student loan bank would substitute for existing programs one federally sponsored source for all the loan funds needed by post-secondary students. Most of these proposals intend that the capital for student loans be provided by the private money market or the Federal Financing Bank in the U.S. Treasury rather than direct federal appropriations: that is, the capital would be "off-budget," even if related expenses such as defaults, interest subsidy, etc., were funded by federal appropriations as they are now. Issues to be explored in considering the loan bank plans include:

--how SLMA's authority, which already provides many of the functions of a loan bank, might be refined or expanded to make a new mechanism unnecessary. Such functions might include loan consolidation and variable repayment options, performance of the collection function, and administration of the federal guarantee. The legal and fiscal relationship of SLMA to such a loan bank should be given careful thought.

--what it would cost to establish the bank as a self-supporting government agency or nonprofit organization, thereby requiring extra interest points over the Treasury interest rate to cover expenses?

--what would be the level of student interest-rate subsidy if any: that is, would students be expected to pay market interest rates, and would in-school interest be subsidized, or accrued and added to the principal which the student must repay?

--what would be the process and criteria for determining the amount of loan capital to be made available? Would the education authorizing committees of Congress or the finance committees be involved? Would loans be available only to students with certain income levels or with documented need, or available to all?

Other substantive questions include: who would be the disbursing agency for the bank, or would the bank disburse loans itself directly to students? The more functions assumed by the bank, the larger the staff which would be required.

Many of the objectives described in the national loan bank proposals are close to the objectives of the present programs, but a single all-encompassing national loan bank would require complete restructuring of existing federal and state loan mechanisms, and the costs and student benefits would depend on the answers to the above questions. Most of the proposals would move in the opposite direction from congressional and executive branch efforts to stimulate states to undertake the primary role in assuring adequate loan capital availability to all students regardless of income, type of institution, or geographic area.

In his March testimony before this Subcommittee, Secretary Califano described a preliminary DHEW proposal for a national loan bank which would involve more of a modification than a replacement of existing programs. Loan capital for undergraduate, graduate, and professional students with documented need would be made available through the NDSL revolving funds plus borrowing from the Federal Financing Bank. Although details of the proposal are not yet clear, the bank would be a nonprofit organization, with interest at Treasury rates plus 1 percent, and loans would be originated on the campus. Supplemental, nonsubsidized loans with a federal guarantee would be available to parents and students. This would alter the GSL primarily by eliminating the special allowance for lenders, and by ending the in-school interest subsidy for recipients of commercial loans.

Any proposals for new federal programs providing student loan capital must be analyzed in the context of broader federal credit issues which will inevitably affect student loan policies. Improved control of federal credit activities is cited as a major goal in the President's FY 80 budget. OMB's recommendations for federal credit policy changes in the FY 80 budget involve working with Congress to establish annual limitations on gross loan activity for all direct loan and loan guarantee programs as part of the budget and appropriation process.

Part of the government concern about federal lending programs is the extent to which they influence the economy and the activities of financing institutions. In this regard SLMA as a secondary market is accepted as a legitimate financial intermediary, whereas a multi-billion dollar student loan bank may not be, particularly if current pressures require it to be "on-budget." The NDSL program is defensible as a backup to the GSL program because it supplies capital under the direct control of the appropriations process to a group of students whom banks are usually not interested in serving. However, changes in both programs may be subject to scrutiny from the standpoint of the federal credit process.

Options for Assuring Equitable Allocation of Capital

All GSL recipients receive partial interest subsidy (via the special allowance to lenders), and most have received 100 percent in-school interest subsidy. As a result of MISAA, any student able to obtain a GSL will receive the subsidy while in school. Banks, however, generally have policies to make only a limited number of student loans and tend to select those who are the safest credit risks, are residents of the state, or attending college in the states in which the bank is located.

Both this and previous Administrations have questioned the need for additional NDSL capital contributions, and have argued that the GSL program should be the principal vehicle for student loans. However, Deputy Commissioner Kornfeld stated in his February 12 letter to ACE that loan access remains a serious problem for GSL, especially "for students from low-income families. We know that most participating lenders continue to discriminate against non-depositors and other categories of students (e.g. freshmen, vocational students, those from low-income families)." He also noted that while the impact of MISAA cannot yet be assessed, OE is concerned "about the possibility that elimination of the family income limit on subsidized loans may accentuate the loan access problem for students from low-income families."

As long as such problems persist, the NDSL program, including new federal capital contributions, will be necessary to serve categories of students with documented need who have difficulty obtaining loans through commercial lenders. This role for the program should be made more explicit in the legislation in order to clarify the essential purpose of funding NDSL, and we have recommended language to state this purpose.

In addition to clarifying the role of NDSL, the Subcommittee may wish to review its state allotment formula and consider ways to facilitate awarding NDSL funds to institutions with the greatest need. The current formula, which is enrollment-driven, does not take into account institutions with higher tuition and lower-income students, or student populations having excessive difficulty obtaining loans from commercial banks. Institutional criteria could be developed to equitably reflect institutional need, including income level of students and tuition, as well as availability of capital under the GSL program. Data recently collected from institutions as part of the new USOE fund distribution procedures for the campus-based programs should provide guidance on the relative need for NDSL funds by state, which could be used in conjunction with other appropriate data sources to develop more equitable state allotment formulas. If the formula were modified, existing funding levels should be grandfathered-in to prevent abrupt changes to institutional lending capacity.

Even if a national loan bank were created to replace existing loan programs, there will always be a limit of some sort on the amount of loan funds available. Therefore any proposals for a loan bank should explicitly identify the categories of students to be served, and the relative priorities of these groups. In any program attempting to serve all students, minimum percentages of loans for certain groups should probably be required, as well as limits on the percentage of funds allotted to other groups, to assure that loan funds are equitably distributed.

Options for Efficient Collection Procedures and Flexible Arrangements for Repayment

The ability of recipients to repay can be improved by:

(a) providing for loan consolidation, variable repayment schedules, and extension of the maximum repayment period under certain conditions;

(b) providing some form of income contingent loan which would permit the borrower to pay a percentage of after-college income for a period of years and/or up to repayment of principal and interest, or forgiveness of some portion of the loan if the borrower has long-term financial problems.

Variable repayment is possible under the broad authority of the current GSL and NDSL legislation, but it is available only at the lender's option. Since SLMA already consolidates loans for the same student, expansion of SLMA's secondary market role would facilitate consolidation. SLMA may be willing to show more flexibility and forebearance in notes it holds than would commercial lenders. We are recommending language to encourage lenders to provide more flexible repayment schedules, but variable repayment without extending the maximum repayment period is of limited benefit. Extending the repayment period, however, would probably result in increased interest charges and/or decreased lender participation in the program.

Income-contingent or income-calibrated repayment is often suggested to provide truly flexible repayment terms. One bill would permit the student to elect under the GSL program income-contingent repayment to the government, or to the lender, if the lender is willing. Borrowers would repay a percent of income, and the average repayment span would be 7-16 years. The Commissioner of Education (or state government, in states with good collection records which wished to participate) would be required to repay the lender at a rate based on the average repayments of all borrowers income-contingent repayment; the borrower would then repay the Commissioner (or the state). Further discussions are needed with the banking community to determine whether such a repayment option would reduce their willingness to lend, and further analysis is needed regarding whether the income-contingent repayment terms outlined would benefit students more than traditional fixed terms. We understand that the Congressional Budget Office is undertaking such analysis.

We support continued cooperation between USOE and the higher education community to improve management and to strengthen collection procedures under the GSL and NDSL programs. Increased training programs and seminars for both government and nongovernment people involved in program administration are needed, as well as development of detailed program manuals and guidelines, technical assistance on the use of billing services and collection agencies, and monitoring of the performance of institutions and banks.

Presently colleges lending NDSL funds get only a 4 percent one-time fee (4 percent of the total loan, which for a $5,000 loan would be only $200) to cover student information requirements, loan origination, billing, collections, etc. over the ten-year life of the loan. In contrast, the private GSL lenders' annual special allowance at the 3 percent rate provides $794 for a $5,000 loan over the same period. The colleges collect 3 percent interest from students on NDSLs, but they must pay that money back into their loan capital revolving fund, and may not use it for student information or administrative costs. The colleges' administrative reimbursement should at least be increased by raising their student information allowance to 6 percent as we recommended earlier. For similar reasons, we recommend legislative language to provide automatic payment of the GSL student information allowance of $10 per recipient.

Better definition of reasonable GSL and NDSL program default levels is needed for a population which per se presents higher risks than borrowers who are established in a community with jobs and collateral and/or a credit record. Because of the Administration's interest in SLMA's committing itself to purchasing paper from banks and state agencies which lend to high-risk students, we understand that SLMA is conducting research in this area. It would also be useful to have more information on the characteristics of NDSL defaulters.

USOE is presently getting relevant information about student borrowers from the Internal Revenue Service for use in collecting GSL and NDSL defaults and providing pre-claim assistance to lenders. We are recommending further legislative authority to assure that OE is authorized to supply institutions, state guarantee agencies and commercial lenders with names and addresses of borrowers.

Currently all NDSL defaults returned to OE which are subsequently collected are turned over to Treasury, including the institutions' 10 percent share. We are recommending language which would permit such funds to be applied to the succeeding year's appropriation for NDSL capital contributions. This would strengthen the NDSL revolving fund and avoid the loss of these funds for student aid which now occurs with their return to the Treasury.

Several legislative proposals would use the IRS federal income tax process for loan collection, claiming that this would reduce the default problem, improve the public's confidence in the program, and increase lenders' willingness to participate in the program. These proposals assume that the IRS system would be more efficient and effective than existing collection machinery. However, IRS audited only 2.46 percent of the tax returns in 1977, therefore substantial alterations to existing procedures would have to be made if it were to assume responsibility for collections. While a system in which the IRS preprints tax forms with student loan liability is superficially appealing, it is highly unlikely to be less costly or cumbersome than current procedures.

To collect student loans, IRS would have to run a tape of all loans in repayment against a tape of all tax returns. After identifying borrowers in repayment, IRS would need a staff skilled in student loan programs to make judgments about whether a taxpayer was in compliance with the law and the student's loan arrangements. Then IRS would apply the same sanctions to delinquent borrowers as to those who are delinquent on their federal taxes. It would be difficult to provide sufficient flexibility to deal with legitimate hardship cases, and student borrowers might be subjected to undue harassment. The increase in IRS bureaucracy to administer loan collection could also result in further federal regulatory intrusion in higher education.

A major consideration regarding IRS administration is the role of state guarantee agencies in the collection process. In 1976 Congress explicitly encouraged the establishment of these agencies to transfer the collections function to the state level. Giving such responsibility to IRS would move in the opposite direction before any adequate appraisal of the 1976 amendments is possible.

Issues Concerning the Level of Government Subsidies

Analysis of the comparative costs to the government of the NDSL vs. the GSL programs shows that they are not very different if interest rates are averaged over time. If today's high interest rates are used in the computation, the GSL program becomes notably more expensive, because while the student is in school the only cost of the NDSL program is the "cost of money," or foregone interest, whereas under the GSL program there is the "cost of money" plus the special allowance. When interest rates are not so high, the difference in student interest rates covers this cost differential. Estimates of federal subsidy per $1,000 borrowed for the NDSL program range from $486 to $610; the estimated subsidy per $1,000 under the GSL program ranges from $486 to $704, or to $1,010 at current interest rates with payment of the maximum special allowance.

Since students are recipients of substantial federal subsidy in the GSL and NDSL programs, some proposals call for reducing this student subsidy. Options center around increasing the 3 percent NDSL interest rate to 7 percent (comparable to the GSL rate), or market rates, and/or deferring, not forgiving, the in-school interest.

Similar changes can be considered in the GSL program, that is, increasing the interest rate to the student, or deferring and accruing the in-school interest. Both would decrease the cost of the program to the government. Analysts who advocate deferring the in-school interest for ultimate repayment generally also recommend that the Commissioner pay the interest to the lender while the student is in school, with the lender repaying the government when the student goes into repayment, but this would delay the impact of any cost saving in the federal budget, and it is doubtful that banks would tolerate the increased accounting burden of establishing a stream of repayments to the government.

The various proposals for national loan banks would make changes in the type or level of government subsidy to students. The HEW proposal would charge students interest at Treasury borrowing rates but would retain in-school interest subsidy, although only for need-based loans; most other loan bank proposals would dispense with in-school interest subsidy.

Totally removing the in-school interest subsidy would result in a significantly larger debt burden for students, particularly for students in long-term education programs and for students borrowing under a program with high interest rates. An example is the Health Professions Graduate Loan Insurance Fund (HEAL), which carries interest rates of about 12 percent. USOE estimates that the average annual loan under the program will be $8,000, and including a three-year residency and a one-year grace period, the student would owe $36,835 in accrued interest at the beginning of the repayment period. If the student then pays off the loan in 15 years, the maximum specified in the statute, repayments would total $148,709.

One subsidy which the Administration has proposed for elimination is the NDSL cancellation provision for teachers of the handicapped, teachers in Title I (ESEA) schools, and for combat veterans. The cost of this subsidy is $18 million annually. Whether this provision effectively serves its manpower development purposes is questionable, but documented shortages of teachers serving the disadvantaged and the handicapped still exist.

Issues in Coordinating Federal/State Loan Programs with Other Student Aid Programs, and Simplification of Loan Programs

The higher education community seeks a balance between grant, loan, and work programs to assure that students have reasonable access to and choice among institutions and programs, without being excessively burdened with debt. To maintain such a balance, funding of grant programs at the federal and state levels should assure that a significant percentage of student expenses can be met by a combination of family and grant support, the remainder to be met by self-help involving student savings, work, and loans. Some option must be provided for families to spread the cost of their contributions over an extended time period. However, it is important that federal loan subsidies do not reach the point where they jeopardize congressional or executive branch support for the grant and work-study programs.

Another aspect of the need for balance between loans, grants, and other forms of assistance is the question of appropriate limits on student indebtedness. Loan limits should be raised to reflect increased costs, but the limits should not be set so high as to alter the established pattern of financing undergraduate education. We recommend that the aggregate loan limits for undergraduates be raised from $7,500 to $10,000 for the GSL program, and from $5,000 to $10,000 for NDSL.

Aggregate loan limits for graduate education should be increased more substantially: we recommend raising the GSL limit from $15,000 to $20,000, and from $10,000 to $20,000 for NDSL. In both cases, our proposed language would give the Commissioner authority to permit larger limits for study in graduate and professional fields determined to be exceptionally expensive.

Beyond raising debt limits, extending the repayment period, and providing more flexible options for repayment of loans, consideration should be given to other options for meeting the special needs of graduate students, who are increasingly relying on loans as the most important source of financing their studies. There is a need to protect the borrower against repayment obligations that exceed a maximum tolerable percentage of income. Among the possible options are loan cancellation or forgiveness in exchange for some kind of social service, and the development of an income-contingent or income-calibrated loan repayment program to help finance graduate study.

Coordinating the several loan programs, and simplifying them for both students and institutions are easier when they are grouped together in a single executive agency and responsible to the same congressional committees for oversight. The Department of Health, Education and Welfare has been moving in this direction with the creation of the Bureau of Student Financial Assistance in USOE. We believe that all student aid programs should be centralized in the Office of Education. Proposals to establish new student loan programs in other federal agencies should be discouraged. All federally sponsored student loans, even those currently administered outside OE, should be under the legislative cognizance of the higher education authorizing committees.

Mr. **Bailey**. Thank you, Mr. Saunders.

Mr. Buchanan, do you have any questions?

Mr. **Buchanan**. If you wish, Mr. Chairman, perhaps we could hear the rest of the panel before we start asking questions.

Mr. **Bailey**. Mr. Ihlanfeldt.

Mr. **Ihlanfeldt**. I wish to defer to Mr. Gibson, to make a few opening comments, and then I will proceed and outline our specific proposal.

STATEMENT OF R. JERROLD GIBSON, DIRECTOR OF FISCAL SERVICES, HARVARD UNIVERSITY

Mr. **Gibson**. Mr. Chairman, you have our written proposal, so we are going to be less formal in our remarks.

We come from a group of schools that have high tuitions and so I think we are probably the reluctant frontiersmen in the loan area, simply because our students not only have the larger debts, but they are also the ones that are most likely to be involved in multiple loan programs. Therefore, we come firsthand with scars from some of the things that are presently going on.

We have three major concerns. We need to coordinate the existing loan programs, and you have heard that before. We have students now who have loans from as many as six, seven, and eight lenders. It is obvious that this simply creates confusion. Borrowers do not know where they stand, and the lenders don't know how hard to press those borrowers. It is simply not a good system.

Second, we are interested in assuring loan accessibility and we are interested in making sure that we control costs to the point where the loan programs do not begin to compete with other title IV programs for any kind of limited appropriation.

Finally, I think it was Mr. Ford who talked about financial aid as being a kind of a tapestry, all of which is very carefully interrelated. We are also concerned that there not be any kind of a major departure. There is a learning time for the whole community about what loan terms are, how you go about them, and we need to move sort of incrementally, to use Mr. Saunders' expression, rather than having a radical departure.

Yet, at the same time, it seems to me that we need to move our existing system one step further, so that we begin to coordinate these programs, so that we can go back and make sure that each party in this delivery system is doing what it can do best, so that we have the most efficient and effective service system overall.

Therefore, the kind of position at which we have arrived is support for an enlarged NDSL loan program, which is essentially a program responding to student needs, which would have the option of different kinds of funding, which could draw upon direct appropriation, or budget financing, both of which are familiar. It assures students with financial need accessibility to a loan. It would be supplemented by a loan program that would really address the liquidity problem that parents have.

There are many upper- and middle-income families who are able to pay the bills, but simply cannot come up with a very large amount of money in a given year. So this program would address that problem, without creating additional cost to the Government, but certainly would be of enormous help to the families so involved.

Having said this much, Mr. Ihlanfeldt will begin to detail some of the specific proposals. I would like to come back at the end and say just a word about the interest rates, when he finishes.

Mr. BAILEY. We will make sure that you have that opportunity.

STATEMENT OF WILLIAM IHLANFELDT, VICE PRESIDENT FOR INSTITUTIONAL RELATIONS, NORTHWESTERN UNIVERSITY, CONSORTIUM ON FINANCING HIGHER EDUCATION

Mr. IHLANFELDT. I think that there are three issues that we would like to address with suggested modifications in the current programs. One is excessive, unnecessary borrowing by the students and by families, often by parents through their students.

Second, the question of loan certainty. We think if we were to consolidate all programs, we still would need to have a procedure whereby any student would be assured of loans, if he or she were able to demonstrate financial need.

Finally, a reduction in the cost of the program. We think that this can be achieved best through consolidation.

Of the programs to which Mr. Gibson referred, one would be need based, and the other would be nonneed based. The need based program would be a loan to the student, and the nonneed based program would be a loan to the parents.

Need would be defined as the difference between the amount of need as determined by some national system minus the parents' contribution and other forms of student assistance. This residual difference the student could borrow plus, we are introducing a suggestion for a $500 corridor. For example, if the student had a $4,000 need, and the parents were expected to contribute, let us say, $2,000 we are talking about a cost of about $6,000. The student has grant assistance in the amount of $2,500. We still have a $1,500 gap. The student, under this program, would be able to borrow $1,500 plus an additional $500 under the need based program.

The parents, at the same time, could borrow the $2,000 for their contribution, and they would be expected to begin repayment shortly after the origination of the loan at a rate of interest which we suggest to be one percent less than 90-day Treasury bills.

This would address their liquidity problem, or cash flow problem, over time. For the student, at the same time, his loan or her loan would be very similar to the program to that in existence currently, an in-school interest subsidy and a repayment period to begin 9 months after leaving school.

As we look at other aspects or modifications of the program, we would think in terms of a 10-year repayment for debts up to $15,000 and a 20-year repayment for debts beyond $15,000. The limits on the program would be $2,500 for a maximum of 5 years, so we are really talking about $12,500 at the undergraduate level, and at the graduate level, where we emphasize consolidation, we would like to think in terms of a minimum to be that amount that currently exists as a result of consolidating the national direct student loans and guaranteed student loan program, which would be $25,000. We suggest some kind of inflationary consideration

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beyond the $25,000 for students in programs that generate rather large rate of return after they enter the job market.

For example, we remain very concerned about the health education assistance loan program for medical school students which has a cost component on a $30,000 loan for repayment of around $135,000. We think the ultimate cost to health care in this country, and to the eventual consumer, is going to be rather dramatic, and will simply accelerate the cost of medical care.

So, we are not necessarily suggesting elimination of HEAL, but we think that if these programs are consolidated and expanded, it will simply supplant HEAL over time.

We also believe that the program ought to address the ceiling on the special allowance. The special allowance, currently, is too restrictive in the tight money market situations. It is our feeling, from the students that we talk with and their families and the bankers, that as we look toward the next two quarters, the money market is going to be extremely tight, and we are going to see situations where students, who have a real need to expand their educational opportunities, will find that they have a shortfall in the student aid.

We hope, if we go through the reauthorization period, that that ceiling can be changed or eliminated.

We also believe that the demographics of borrowers are beginning to change rather substantially. We think fewer students are going to borrow more. We think that most of the borrowers are going to be older. Part of that is as a result of the tremendous expansion of the basic grant program, which should have reduced the need to borrow among those families who come from low-income circumstances, who are attending low-price institutions. As a result, we are hopeful that the default rate throughout the country will change.

I would like to speak for a moment about the sources of capital. Right now, we estimate that for every dollar of on-budget appropriation for the guaranteed student loan program, we are generating $10 in loan on an annual basis. If you look at the national direct student loan program, that is a dollar-for-dollar cost to the Federal Government. So you are not leveraging that program very successfully.

We think that through consolidation and building on the national direct student loan program concept, where the need-based loan is originated by the campus' aid officer, you can get a lot more bucks, so to speak, for your dollars, and assure access to student loans for those who are in financial need.

We are not suggesting, however, that educational institution be the servicer of student loans. In fact, we are deferring to the Student Loan Marketing Association, and suggesting that they, in fact, determine who should be collectors of student loans—financial institutions, States, some educational educations, but I think that those numbers ought to be very, very small.

The reason that we suggest the Student Loan Marketing Association be identified and designated as the servicing component is that, until Sallie Mae entered the loan environment, we really did not have a very good definition of "due diligence." The Office of

Education refused to define what "due diligence" was, except that they had a rather high expectation.

Sallie Mae's servicing criteria are extremely extensive. They monitor very effectively. I think that we will find that they are offering a quality control in the industry now that has not existed before. We need the standard of performance to look toward, if we are going to be successful in reducing this default rate. To permit the educational institutions, banks, States to define their efforts as they see fit, I think, would be unfortunate, and we should not continue along that path.

So we do have an agency that has gone to an extensive effort of defining what due diligence is. They have a very extensive manual, and servicers are expected to meet those criteria in servicing loans, and they are monitored very effectively.

Mr. Gibson. There has been spirited discussion about the interest rate. Obviously, if we are going to coordinate loan programs, we have to come to some resolution between the fact that one program is presently at 3 percent and the other is at 7-percent.

I simply would like to remind us all that the 3-percent rate, which was introduced in 1958, was introduced in a period when the rate of inflation was about a percent and a half, and the rate of first mortgages was about 5 percent. If you consider the situation of the borrower at that point, the borrower who is a senior and looks to starting repayment on his loan a year hence, he would still get an interest deduction on his income tax for some small proportion, and he would repay dollars which would be 1 or 1.5 percent devalued because of the rate of inflation.

So the effective interest rate that he was paying at that point was probably around 1 percent on the loan that he had.

We now transport ourselves to the present situation. We are lucky when we get the rate of inflation down to 8 percent, and presumably that is going to be the neighborhood in which we are going to have to live for a while.

The borrower now takes his loan as a senior, and looks forward to that first year of repayment. He will still get the income tax deduction, but now with that 7-percent loan, the dollar that he begins to repay a year hence is going to be devalued by the 8 percent. So, in effect, he has a subsidized loan even at the 7-percent rate at the present time, and that fact simply is magnified over the period of repayment.

So it seems to me that the apparent hardship of moving from a 3-percent to a 7-percent rate, as long as we are in a period of inflation in the 8- to 9-percent range, is really only an apparent hardship. The dollars that a borrower would repay under a 7-percent rate are probably as easily repaid as they were at the time that we first instituted the 3-percent rate.

Mr. Ihlanfeldt. One of the things that has been mentioned is the replacement of the Student Loan Marketing Association by a national student loan bank. I think, in many ways, the country is evolving in that direction, and Sallie Mae may be providing that purpose, or that objective.

One comment, with which I would like to close, is that under the proposal that we have suggested, the Government would only be required to provide continued capital appropriations for another year or two. Sallie Mae would be the secondary market which would, in fact, replenish that capital on an annual basis to the institutions, but not necessarily only institutions would be making loans. We are suggesting that all the parties continue to participate. On the non-need-based loan, the parent loan program, we are suggesting that banks and financial institutions be the primary lenders under this program.

[The prepared testimony of Mr. Ihlanfeldt follows:]

Prepared Testimony of William Ihlanfeldt, Vice President, Institutional Relations, Northwestern University, Accompanied by R. Jerrold Gibson, Director of Fiscal Services, Harvard University, on Behalf of the Consortium on Financing Higher Education

On behalf of the Consortium on Financing Higher Education, we are pleased to have this opportunity to address the members of the Subcommittee on Postsecondary Education of the House of Representatives. The Consortium on Financing Higher Education (COFHE) is a group of thirty independent colleges and universities that cooperate in studies related to the potential student market and the methods by which families finance the higher education of their children. The member schools of the Consortium range in size from no more than 1,200 students to approximately 14,000 undergraduate and graduate students.

Recent COFHE studies indicate that the percent of students qualifying for financial aid within the applicant pools of the member schools ranges from 24 pecent to 62 percent, and, on the average, 50 percent of entering freshmen at member schools receive financial assistance. For the current academic year, the Consortium estimates that undergraduate students attending their schools received $154.4 million in grant assistance. Of this amount, $92.8 million will come from institutional sources and $52.8 million from external sources. Of the $92.8 million from institutional sources, $52 million is appropriated from current unrestricted funds, i.e., funds that come from the operating budget which otherwise could be used for academic programs. Of the $52.8 million from external sources, students received $21 million from the Basic Educational Opportunity Grant and Supplemental Educational Opportunity Grant Programs. In terms of the outstanding dollar volume in student loans, as of June 30, 1977 (the most recent year for which data are available), the member schools of the Consortium had $173.3 million outstanding in National Direct Student Loans and $83.4 million outstanding in Guaranteed Student Loans. As indicated by these figures, the member schools of the Consortium have substantial grant and loan programs, for which much of the supportive capital comes from institutional resources.

We are here today to present a proposal concerning the use of loans as a means of financing higher education. Numerous alternatives have been suggested in the last few years either as substitutes for the present Guaranteed Student Loan Program, or as changes in the delivery system for Guaranteed Student Loans. A number of these proposals have recommended changes in the roles of each of the present participants that either originate or act as a source of capital for Guaranteed Student Loans. Participants include financial institutions, educational institutions, states or their designates, and the Student Loan Marketing Association. The premise for either a change in function or the elimination of one or more of these current participants in the program is to improve efficiency and/or to achieve greater equity. Efficiency in the sense that operational costs could possibly be reduced, and equity in the sense of increasing any student's likelihood of easily obtaining a loan. These are not objectives that are easily realized, for to achieve one, may have an adverse effect on the other. Most federal programs attempt to achieve a reasonable balance between efficiency and equity. However, with regard to educational loans, equity should prevail, and any student who desires and qualifies for loan assistance should be assured of such aid.

The Consortium has reviewed the advantages and disadvantages of these various proposals and is in sympathy with some of the suggestions for change. However, we have come to conclude that the present system is beginning to work quite well, and that it would take years to replace the current delivery system of student loans and to achieve the same degree of efficiency and equity that exists today. Moreover, the present system with modest changes, which would capture the strengths of the various participants, can be substantially improved to achieve both of the widely agreed upon goals of loan certainty for those who have financial need and reduction in costs, at least in constant dollars, to the federal government.

The basic objectives of the proposal that we wish to present are as follows:

1) A simplification of the loan origination and repayment process by reducing and consolidating the number of federal loan programs.

2) A reaffirmation of the recognition that parents do have a responsibility to assist their children in meeting the costs of their education.

3) An expansion of the activities of the Student Loan Marketing Association as a secondary market, including collection services.

4) A reiteration and clarification of the roles to be assumed by states, financial institutions, and educational institutions in the origination, administration, and collection of Guaranteed Student Loans.

5) A reduction in the on-budget federal expenditures for the support of educational loans.

The foundation of our proposal is a single two-tiered loan system that would include both a need-based program and a non-need-based program, which is, in effect, a loan to meet short-term liquidity needs of families. A need-based loan would become the obligation of the student and a non-need-based loan would be the obligation of the parent(s) or independent students, who would find it necessary to borrow.

Before proceeding with specific recommendations, however, we think it is appropriate to review the current state of the environment with regard to the Guaranteed Student Loan Program. Although the national default rate remains relatively high, it is less than it was four years ago, and many of the attendant abuses no longer exist. Fortunately, it has been several years since we have read about any school which has willfully extorted either the people of the United States or the federal government through the Guaranteed Student Loan Program. Many of these former abuses have been corrected through federal legislation or regulation and through quality controls that have been imposed by the Student Loan Marketing Association. Until Sallie Mae established a standard of performance in the origination and the collection of students loans, there was no single definition in the industry as to what represented an acceptable level of due diligence in the collection of educational loans. The Office of Education had elected not to define due diligence, but still held the originating institution responsible for the exercise of due diligence. The presence of Sallie Mae in the loan environment has not only established a sense of quality control but has, in fact, created a renewed sense of responsibility with regard to the origination practices of student loans.

THE NEED-BASED STUDENT LOAN PROGRAM

The loan program that we wish to propose is one that addresses the problem of creating loan certainty, and simplifies the administration of educational loans by merging the National Direct Student Loan Program with the Guaranteed Student Loan Program. As a consequence, it would no longer be necessary for any of the other loan programs to continue to exist. The termination of these other loan programs in and of themselves would result in substantial savings in federal appropriations for operations and loan capital.

The need-based program would permit students to borrow an amount equal to the difference between the total cost of their education (tuition plus room and board plus a specific amount for miscellaneous expenses) minus the sum of all other forms of financial assistance, including the parents' contribution, plus $500. The additional $500 is recommended as recognition of the inherent inequities in any need analysis system. For example, if a student's financial need should be $1,500 after subtracting other forms of student assistance, that student would be eligible to borrow up to $2,000 ($1,500 plus $500). At the undergraduate level, students would not be permitted to borrow more than $2,500 in any one fiscal year, or to borrow beyond a maximum period of five years for their undergraduate education.

Similarly, at the postbaccalaureate level, students could borrow an amount equal to the difference between other forms of assistance and the total cost of their education plus $500 as outlined above. If it is necessary to establish fixed sums of annual and aggregate amounts of total debt at the graduate level, then this should be done at the discretion of the Commissioner. However, as a guiding principle the aggregate debt should exceed the total amount that students can borrow presently from the various loan programs to achieve their educational objectives. As indicated by the above, graduate and professional school students should not only be eligible for the in-school interest subsidy, but the amounts that they can borrow from a single national loan program should be substantially expanded and vary based upon potential earning power. High in-school interest rates coupled with increasing prices for graduate and professional education will have the effect of discouraging students with limited resources from entering postbaccalaureate educational programs, and a disproportionate number of these students will be minorities. For example, this is an increasing problem in the health professions, and the Health Education Assistance Loan Program (HEAL) is part of the problem. A student who borrows $30,000 under this program at current interest rates would be required to repay as much as $135,000. Excessive borrowing under this program will accelerate the costs of medical care. The adoption of this proposal would eliminate the need to continue the HEAL program.

The terms of the Consortium loan proposal would include an in-school interest subsidy and a 7 percent interest rate during the repayment period, which would begin to accrue nine months after students had terminated their education. No interest would accrue during the in-school period. The repayment period would be ten years for debts of less than $15,000, fifteen years for debts in excess of $15,000. Other components of the program would include debt consolidation and a provision for graduated repayment at the borrower's and not the lender's option.

In the initial year, capital for the program would be provided through a variety of sources: direct federal capital appropriations, National Direct Student Loan repayments, and other funds provided by the college or university, the states, and financial institutions. Educational institutions, states, and financial institutions would be eligible to originate loans under the need-based component of this program. Educational institutions would be given the option of utilizing their own capital and/or capital provided through the federal or state governments. Those institutions which acquired capital from a variety of sources, including federal appropriations, would only receive interest on that portion of the loan portfolio for which they provided their own capital. Those institutions which required either a federal or state appropriation to totally support their loan program would not qualify for any interest benefits and, out of necessity, would be required to utilize the services of the Student Loan Marketing Association in succeeding years. After the initial year, funding would be provided through Sallie Mae, National Direct Student Loan repayments, other funds provided by the educational institution, the states, and financial institutions.

The federal government would only be obligated to provide a direct capital appropriation in the initial year. Educational institutions, in order to renew loan capital, would be required to sell notes either directly to the Student Loan Marketing Association or indirectly to Sallie Mae through the states. The most efficient system would be for each state or its designate to act as a conduit to the Student Loan Marketing Association. In fact, a federal capital appropriation may not be required by any school within those fifteen states that currently act as direct lenders. In addition, there are seven states that already have established secondary markets. The states that either have become direct lenders and/or have established secondary markets create their capital through the issuance of revenue bonds or through an initial capital appropriation from the general funds of the state. Subsequently, most of these states have utilized the services of the Student Loan Marketing Association both to improve their bond ratings in order to obtain a lower interest rate and as a source for future capital.

As already suggested, educational institutions, states, and financial institutions would be responsible for originating student loans. However, the collection responsibilities would be assumed by the Student Loan Marketing Association and those agencies it would so designate to be responsible for collection. Educational institutions that meet the standard of servicing required by Sallie Mae would be permited to service their own loan portfolios. However, this number is likely to be inconsequential, because the standard of performance required by Sallie Mae far exceeds the administrative apparatus established by most educational institutions to service student loans.

THE NON-NEED-BASED PROGRAM

Under this component of the system, parents, guardians, and independent students could borrow an amount that exceeds the need of the student, but not more than the total cost of attendance. In view of the fact that apparently parents are providing, on the average, no more than 50 percent of their expected contribution (Boyd, et. al., *Journal of Student Financial Aid*, November, 1978), we believe that access to such loans is essential. The institutionalization of this program would be a reminder to the nation, as a matter of public policy, that parents do have a financial responsibility to assist their children in meeting the cost of their education. One desirable outcome would be a reduction in excessive student borrowing.

The terms of the program would include a repayment period of ten years and equal installments. The rate of interest would be the average rate of interest paid in the last quarter on 90 Day Treasury Bills minus 1 percent, but not less than 7.5 percent. Independent students could elect not to begin repayments until after they terminated their education, but the interest would accrue from the date of origination of the loan.

The source of capital would be financial institutions and the Student Loan Marketing Association. However, in contrast to need-based loans, only financial institutions could originate loans of convenience.

OTHER NECESSARY ATTRIBUTES

The special allowance should apply to both programs and should be, as it is currently, tied to the rate of 90 Day Treasury Bills. However, the ceiling on the special allowance should be eliminated in order to retain the participation of financial institutions during periods of limited credit. At current interest rates, it is quite likely that in the last two quarters of this year, because of the ceiling on the special allowance, students may find that financial institutions will not lend.

In order to facilitate the availability of capital during the first several years of the program, it may be necessary for the federal government to provide supplemental capital appropriations to certain educational institutions, those which do not have the capacity to utilize their own funds, and which have yet to develop access to the Student Loan Marketing Association. The necessity for direct capital appropriations beyond the first year would depend upon the time required by Sallie Mae to develop the necessary systems of information exchange and loan servicing capabilities. To facilitate the use of their secondary market programs and to achieve these objectives, it may be necessary and desirable for Sallie Mae to create regional offices.

COST EFFECTIVENESS

The Guaranteed Student Loan Program as it exists today permits any student to borrow at no interest while in school. The only restrictions are annual and aggregate amounts of total debt. We do not believe that the continuation of this policy is in the best interest of higher education. The incentive is substantial to borrow as much as one can. For those students who have no financial needs, a loan environment exists which permits substantial monetary gain at the expense of the federal government on behalf of the American taxpayer. For this fiscal year, it is estimated that the dollar volume of Guaranteed Student Loans will reach $2.5 billion with an expected 50 percent increase in fiscal 1980. Future costs will be prohibitive and are likely to precipitate a call for the elimination of all federally supported student loan programs.

With the passage of the Education Amendments of 1972, Congress stated that the foundation of student assistance should be the Basic Educational Opportunity Grant Program (BEOG). More recently with the passage of the Middle-Income Student Assistance Act, Congress established that such grants should be available to the students of middle-income families as well as these of lower-income families. The BEOG program combined with the Supplemental Educational Opportunity Grant Program and the continued expansion of the Federal Work-Study Program should have the effect of dramatically reducing the need for most undergraduates to borrow at low-priced institutions, particularly if the eligibility to borrow is related to financial need.

The demographics of present and prospective student borrowers project an older and more educated advanced student as the norm. Fewer students are likely to be borrowing greater amounts. These also should be students who are more likely to benefit from their educational experiences and, therefore, feel more compelled to meet their debt obligations. One result should be a continued reduction in the number of defaults. Therefore, costs in constant dollars should decrease not only because of changes in the type of student who would be borrowing, but because of reduction in the number of loan programs, reduction in appropriations for the in-school interest subsidy because a subsidy would not be required for non-need-based loans, and reduction in the cost of collection through more effective servicing.

COMMENTARY

This proposal accomplishes a number of desirable objectives: 1) educational institutions would be required to authorize the amount of any loans based upon need and, thus, provide loan certainty; 2) educational institutions, at their discretion and not by regulation, could expand their base of loan capital by encouraging students first to seek loans from financial institutions; 3) educational institutions originating loans would transfer collection responsibilities to agencies that meet the standard of performance required by Sallie Mae; and, 4) Congressional legislation designed to expand the role of the states would be enhanced, since the states would continue to act as guarantors, as direct lenders, as mini-secondary markets, and as conduits to the Student Loan Marketing Association. The net result would be expansion of an already diverse loan environment so as to permit each of the present participants to increase or decrease their lending activities based upon both external loan demand and internal interest in the program. Thus, the members of the Consortium on Financing Higher Education believe that the demand for educational loans can best be met by a two-tiered system with programs for both need-based and non-need-based loans.

Mr. **Bailey**. Thank you.

Our next witness is Ms. Bette Hamilton, the American Association of Community and Junior Colleges.

STATEMENT OF BETTE EVERETT HAMILTON, AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES

Dr. **Hamilton**. Thank you.

I have a very bad cold. I was healthy on June 5, but became sick in the interim.

My testimony today is less technical than that of the previous witness, but I think that it is broad based and contains some philosophical concerns that we have in higher education, and particularly in community and junior colleges.

During the reauthorization hearings we have heard a great deal about the concept of the student aid package. Indeed, most of our statistics and data have been funded on the premise that students receive a variety of forms of student aid to meet their financial needs.

We have found, however, that most students do not receive a package of Federal student aid. In fact, a study recently completed by the Cooperative Institutional Research Program, cosponsored by the American Council on Education, has suggested that probably as many as two-thirds of all Federal aid recipients receive only one kind of Federal assistance.

I think that this fact is an important consideration as we discuss the grant and loan programs.

To many in the postsecondary community, and certainly in community and junior colleges, the grant programs—in particular the basic educational opportunity grant program—are the most important. Even in the BEOG program, however, as many as 57 percent of the recipients only receive a BEOG award and no other State, Federal, or institutional student aid. It means that most students do not receive a guaranteed student loan, or college work study, or a State grant.

Of those people who receive only a BEOG, as many as 82 percent are in low-tuition colleges and, therefore, affected by the one-half cost rule. Most of those colleges are community colleges. If one looks at the demographics of the kinds of students who go to community colleges, they tend to be poor; they tend to be less mobile; and they tend to be older.

When one thinks about the grant and loan programs, it is also important to realize that the people who participate in the grant programs are from different socioeconomic levels than those who make up the majority of GSL recipients. There are very few really low-income students who receive either a guaranteed student loan, or a national direct student loan. We estimate that probably as few as 3 percent of those who receive guaranteed student loan attend community colleges, and probably as few as 5 percent of the community college students receive a national direct student loan.

However, student loans are very important, and we are concerned about them on two counts, primarily. One, their escalating costs; two, the equity of access. We feel that if there are going to be Federal loan programs—and we have, as you know, two major loan programs—there should be equity of access for those who want to partake of the programs.

Additionally, we feel that something must be done about the cost of these programs as Congress and the President continue to try to balance the Federal budget. The escalating costs of the loan programs are holding the future of the grant programs in jeopardy.

In his testimony before this committee in March, Secretary Califano said that it costs about $700 per $1,000 loan to subsidize a college freshman through 4 years of school and through the repayment years. There have been other estimates. Officials of the Office of Education have recently estimated that the cost if the interest rates continue at a 13.25-percent rate and if the ceiling of the 5 percent is eliminated would approximate around $1,000 per $1,000 loan.

In other words, a student would receive a 50-percent grant, every time he or she borrows $1,000 for 4 years of college, and through the repayment years.

Another factor that we have to consider is that it is too early to appraise the effect of removing the income eligibility cap in the guaranteed student loan program as changed by MISAA.

It is estimated that student participation in the GSL program has increased as much as 38 percent nationally, and as you know it is very difficult to generalize about the guaranteed student loan program because State records are very uneven. In some States there are guarantee agencies that do a superb job, and therefore generate a lot of capital. In other States, there are problems with a student's even securing a loan.

We ask the Congress to seriously consider doing something to improve the guaranteed student loan program by either capping the income eligibility, which was the original suggestion proposed by this subcommittee prior to enactment of MISAA. Or, adding the interest subsidy, or a portion thereof to the principal when repaid by the student, as in the case of Congressman Maguire's bill. Or third, we suggest that Congress subsidize only students who need help in paying college expenses as in the supposed administration bill or in the COFHE proposal, perhaps.

We would go one step further, though. The administration's proposal, and to some extent the COFHE proposal, are two-tier types of proposals. It seems to me that in any case there should be an artificial cutoff, whether the cutoff is imposed by the needs analysis system or an income eligibility guideline. I have very little faith in needs analysis systems and I suspect the COFHE group has little also because they have that $500 "grace" corridor in their proposal. I suspect that the margin of error in needs analysis is greater than $500.

It seems to us that there should be a sliding interest scale. This would be the most equitable way of doing it. Congress could give the most subsidy to low-income students, some subsidy to middle-income students, and no subsidy, but convenience, perhaps, to high-income students.

We are not advocating that low-income students avail themselves of loans to finance their unmet needs. We would prefer, of course, that students be given more grant money, or the opportunity to work. However, we do think that the student loan programs with their high costs to the Government and to the taxpayer are going to higher income people and squeezing out low-income people, and that is a regressive social policy.

We are very supportive of certain provisions that have been suggested by various groups in terms of renovating and changing the loan programs. We do agree that there should be some kind of consolidation of loan programs. However, we feel that equity is more important than mere convenience, and we would be supportive of continuing a direct loan program if it were targeted on needy people.

What has happened over the years is that the national direct student loan program has gone from a program serving needy students to a program serving students who happen to go to institutions that have good NDSL programs. If you look at the number of dental and medical students with NDSL loans, and you look at the number of low-income students that are getting NDSL loans, a change has really occurred.

Many of our institutions who serve a lot of low-income students are getting out of the NDSL program. Maybe they never should have been in the business because they have trouble collecting the loans and the like.

What I am saying is, if we do have a direct loan program, and at a lower interest rate than 7 percent, and I agree with the previous witness that 7 percent, even in this day and age, is an interest subsidy of quite some magnitude then we should really direct our program back to the people that it was intended to serve.

We agree that there should be a consolidation of loan programs. In the guaranteed student loan program there should be a continuation of an interest subsidy to needy students only, whether it be by a two-tiered approach, or whether it be by repaying the interest, or requiring an income eligibility cap. We think that there are a variety of ways to make the Federal loan programs "need" based again, and we would want to be flexible in our options. But we do think that there is a necessity of doing something about this.

We like the idea of an income contingent repayment system, as offered in Congressman Maguire's bill. We think that, perhaps, would be of most advantage to the student, and would help lower the default rate.

We think that there needs to be an extension, in some cases, as to the period of repayment. Again, we would want to be flexible. Also, in the amount of borrowing ceilings, it seems to us that this definitely should be increased in certain cases.

Although this is controversial, we see no real problem with a limited—I stress that word limited—involvement of the Internal Revenue Service in the collection of student loans. Each and everyone of us in America has an accounts payable relationship with the Internal Revenue Service. We fight them every year, but every year they get us. I think that the students and the public are very familiar with that agency, probably more so than the Office of Education.

I would stress that we would not have the Internal Revenue Service duplicate any services, or extend accreditation or eligibility to participate in these programs. But it seems to us that they keep track of people very well, better than most institutions do for alumni contributions and the like. It is probably the real way of the future.

In fact, if Congress really wanted an ideal system, you might picture some kind of bill for the taxpayer at the end of the year from the Internal Revenue Service, perhaps with what IRS is going to pay him/her back in a rebate on the income tax, and also what their payments are on their VA mortgages, their guaranteed student loans, and perhaps every other program that the Federal Government is into.

I understand that such a system cannot happen very quickly, or maybe there is too much of a turf fight among Federal agencies to do it, but it is amazing what IBM can do. It is amazing what the American Express Co. can do. The credit card companies can consolidate all one's bills and give the individual one sheet and say: "This is what you owe."

Maybe my concept goes one step further than just student loans. Maybe we should consolidate home mortgages, student loans, and everything else that we owe, at least it would be very helpful for knowing one's net worth and total debts.

I would just like to stress also that our position on student loans is very open. I think that there are some very good suggestions that have been offered by many groups; however we are very leery of proposals, such as national student loan banks, and the like, that would alter the long-range planning and financing of postsecondary education, or that would increase tuition, generally. We feel that low tuition is the best investment that this country has ever made. Thank you.

[The prepared statement of Dr. Hamilton follows:]

Prepared Statement of Dr. Bette Everett Hamilton, Associate Director for Governmental Affairs, the American Association of Community and Junior Colleges

Mr. Chairman and Members of the Subcommittee. I welcome this opportunity to present the testimony of the American Association of Community and Junior Colleges on the federal student loan programs.

Over the past few weeks the Subcommittee has heard some helpful, but somewhat conflicting testimony, about the unmet needs of students served by the Title IV programs. Most of these claims have not been substantiated by adequate data. On May 22, 1979, however, the Policy Analysis Service of the American Council on Education prepared a paper based on data from the Cooperative Institutional Research Program (CIRP) entitled "The Distribution of Types and Packages of Student Aid Among Freshmen." Before one can really evaluate the success of the grant, work or loan programs, it is important to look at the data in the ACE paper. I have attached the entire ACE paper to my testimony. However, I would like to underscore certain data for the Subcommittee before I proceed with my comments on the federal loan programs. Since so much of federal student aid policy is predicated upon the idea of a student aid "package" for the student, it is imperative that one consider how these various aid programs inter-relate.

THE MYTH OF PACKAGING

The most important finding in the ACE paper (which focused on first-time, full-time freshmen) is that MOST federal student aid recipients DO NOT RECEIVE A "PACKAGE" OF AWARDS from the various programs. The majority of recipients (two-thirds) receive only ONE kind of federal assistance.

THE BEOG PROGRAM HAD THE LARGEST NUMBER OF RECIPIENTS--23 PERCENT OF ALL THE FIRST-TIME, FULL-TIME FRESHMEN IN 1977-78. HOWEVER, OF THE STUDENTS RECEIVING A BEOG--57 PERCENT--RECEIVED ONLY A BEOG GRANT AND NO OTHER FORM OF FEDERAL STUDENT AID. OF THAT 57 PERCENT THAT RECEIVED ONLY A BEOG, OVER HALF OF THOSE STUDENTS ATTENDED INSTITUTIONS WITH TUITIONS LESS THAN $700--MOSTLY COMMUNITY COLLEGES--AND THUS THEY WERE AFFECTED BY THE ONE-HALF COST RULE. IN ADDITION, AT INSTITUTIONS WITH TUITIONS LESS THAN $700, OVER 80 PERCENT OF THE STUDENTS WHO RECEIVED ONLY A BEOG HAD INCOMES BELOW $12,499 AND YET THEY RECEIVED NO STATE OR INSTITUTIONAL ASSISTANCE OF ANY KIND--GRANTS, WORK, OR LOANS.

OF THE POOREST INCOME GROUP--THOSE WITH ZERO FAMILY CONTRIBUTION--56 PERCENT OF THE BEOG ONLY RECIPIENTS AT LOW TUITION COLLEGES DID NOT RECIVE ANY STATE OR INSTITUTIONAL GRANTS, WORK, OR LOANS. THE FINANCIAL NEED OF THIS GROUP OF AID RECIPIENTS (ESTIMATED AT $2506 BY THE COLLEGE ENTRANCE EXAMINATION BOARD) IS CLEARLY UNMET AND SEVERELY AND ADVERSELY AFFECTED BY THE ONE-HALF COST LIMITATION IN THE BEOG PROGRAM.

ONLY 3 PERCENT OF THE FULL-TIME FIRST-TIME FRESHMEN FROM FAMILY INCOMES LESS THAN $12,499 RECEIVED A GUARANTEED STUDENT LOAN IN 1977-78 TO ATTEND A COMMUNITY OR JUNIOR COLLEGE. SLIGHTLY MORE--4 TO 5 PERCENT RECEIVED A NATIONAL DIRECT STUDENT LOAN.

THE AACJC PHILOSOPHY ON LOANS

SOME MIGHT ASK WHY AACJC IS EVEN TESTIFYING TODAY ON STUDENT LOANS WHEN ITS CONSTITUENCY IS SUCH A SMALL USER. WE ARE CONCERNED PRIMARILY WITH TWO FACTORS RELATING TO LOANS: (1) THEIR COSTS AND

(2) EQUITY OF ACCESS. SINCE THE GRANT PROGRAMS, ESPECIALLY THE BEOG PROGRAM, ARE OUR FIRST AND HIGHEST PRIORITY, WE FEEL THAT THE INCREDIBLE AND ESCALATING COSTS OF THE FEDERAL STUDENT LOAN PROGRAMS JEOPARDIZE THE VERY FUTURE AND EXISTENCE OF THE GRANT AND WORK PROGRAMS. SECRETARY CALIFANO IN HIS TESTIMONY EARLIER BEFORE THIS SUBCOMMITTEE STATED THAT IT COSTS ABOUT $700 PER $1000 LOAN TO SUBSIDIZE A FOUR-YEAR COLLEGE FRESHMAN THROUGHOUT THE IN-SCHOOL AND REPAYMENT YEARS. IN FY 80; THE SUBSIDY ON FEDERAL LOANS WILL SURPASS 1 BILLION DOLLARS WHILE MUCH LESS IS GOING IN GRANTS TO STUDENTS FROM FAMILIES WITH INCOMES UNDER $5,000. IF THE OFF-BUDGET COSTS WERE ADDED, THE EXPENSE TO THE FEDERAL GOVERNMENT APPROXIMATES 7 BILLION DOLLARS.

MEMBERS OF THE HOUSE WAYS AND MEANS COMMITTEE ARE BEGINNING TO ASK THAT THE "OFF-BUDGET" COSTS OF FEDERAL GUARANTEED AND SUBSIDIZED LOAN PROGRAMS BE INCLUDED IN THE RESPECTIVE BUDGET CATEGORIES SO THAT THE CONGRESS AND TAX-PAYERS CAN CLEARLY SEE THE ACTUAL COSTS OF THESE GROWING PROGRAMS. WHETHER THIS DEVELOPMENT OCCURS OR NOT, ONE CAN NO LONGER SIMPLY IGNORE THE PUBLIC'S CONCERN ABOUT FISCAL INTEGRITY AND EQUITY.

IT IS TOO EARLY TO APPRAISE THE EFFECT OF REMOVING THE INCOME ELIGIBILITY CAP IN THE GUARANTEED STUDENT LOAN PROGRAM, AS CHANGED BY MISAA. HOWEVER, SECRETARY CALIFANO'S TESTIMONY INDICATED THAT THERE HAS BEEN ABOUT A 30 PERCENT INCREASE NATIONALLY IN GSL VOLUME SINCE THE LAW WAS CHANGED. INFORMATION FROM THE STATE OF MARYLAND INDICATES THAT THERE HAS BEEN A 75 PERCENT INCREASE IN STUDENT USE THERE. ONE MUST ASSUME THAT THE COSTS OF THE GUARANTEED STUDENT LOAN PROGRAM ARE GOING TO INCREASE DRAMATICALLY IN FY 80--WAY

BEYOND BUDGET ESTIMATES--AND THAT THIS TREND WILL CONTINUE FOR SOME TIME AS STUDENTS AND THEIR PARENTS LEARN ABOUT THE GOOD DEAL IN AVAILING THEMSELVES OF A GSL--WHETHER THEY NEED IT OR NOT.

THE AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES ASKS THE CONGRESS TO LOWER AND ARREST THE GROWING COSTS IN THE GUARANTEED STUDENT LOAN PROGRAM. THIS CAN BE ACCOMPLISHED THROUGH A VARIETY OF WAYS: (1) CAPPING THE INCOME ELIGIBILITY AT SOME REASONABLE LEVEL; (2) ADDING THE INTEREST SUBSIDY OR A PORTION THEREOF, TO THE PRINCIPAL WHEN REPAID BY THE STUDENT; (3) SUBSIDIZING ONLY STUDENTS WHO NEED HELP IN PAYING COLLEGE EXPENSES AND USING A SLIDING SUBSIDY PERCENTAGE. (THOSE WITH THE LOWEST INCOMES WOULD GET THE MOST SUBSIDY; THOSE WITH MIDDLE INCOMES WOULD RECEIVE SOMEWHAT LESS OF A SUBSIDY; AND THOSE WITH HIGH INCOMES WOULD GET NO SUBSIDY AT ALL. STUDENTS FROM HIGH INCOME FAMILIES COULD PARTICIPATE IN THE PROGRAM FOR THEIR OWN CONVENIENCE IF THEY SO DESIRED.)

THE FIRST SUGGESTION IS THE EASIEST. IT KEEPS THE GSL PROGRAM BASICALLY AS IT IS TODAY--AND SUBSIDIZES ALL ELIGIBLE STUDENTS AT THE SAME RATE. IT WOULD TEND TO FAVOR MIDDLE-INCOME STUDENTS OVER LOW OR HIGH. LOW INCOME STUDENTS WOULD NOT RECEIVE A HIGHER INTEREST SUBSIDY THAN THEIR WEALTHIER MIDDLE-INCOME COUNTERPARTS; HIGHER INCOME STUDENTS WOULD NOT BE ELIGIBLE FOR THE INTEREST SUBSIDY. (ALTHOUGH AVAILABILITY TO A 12 PERCENT LOAN MAY IN ITSELF CONTAIN AN INTEREST SUBSIDY IN THE YEARS AHEAD.)

THE SECOND SUGGESTION SAVES THE TAXPAYER THE MOST MONEY. LOANS WOULD BE AVAILABLE TO ALL STUDENTS (WHO HAD ACCESS TO A STATE GUARANTEE OF FISL AGENCY). THE INTEREST WOULD BE DEFERRED WHILE THE STUDENT IS IN SCHOOL, BUT THE STUDENT WOULD HAVE TO PAY THE INTEREST

(TO A MAXIMUM OF 12 PERCENT) WHEN HE/SHE BEGAN REPAYMENT. THIS APPROACH WOULD REQUIRE STATE AGENCIES AND LENDERS TO ALTER THEIR BOOKKEEPING PROCEDURES AND INFORMATION SYSTEMS SINCE THEY WOULD HAVE TO PAY BACK TO THE COMMISSIONER OF EDUCATION THE STUDENT'S PORTION OF THE IN-SCHOOL SUBSIDY AS HE/SHE REPAID IT. LENDERS AND AGENCIES WOULD BE RELUCTANT TO SUPPORT CHANGES THAT WOULD INCREASE THEIR WORK AND EXPENSES.

THE THIRD SUGGESTION RETURNS THE GSL TO A NEED BASED PROGRAM AND INCREASES THE CHANCES FOR EQUITY AMONG STUDENTS OF VARIOUS INCOME LEVELS; IT ALSO SAVES MONEY. HIGH INCOME STUDENTS WOULD NOT BE ELIGIBLE FOR THE SUBSIDY; MIDDLE-INCOME STUDENTS WOULD RECEIVE A PARTIAL SUBSIDY TO HELP THEM WITH CASH-FLOW PROBLEMS AND ALLOW THEM TO CONSIDER "CHOICE" IN PICKING A POSTSECONDARY INSTITUTION. LOW-INCOME STUDENTS WOULD GAIN THE MOST, HOWEVER, SINCE THEY WOULD ENJOY A HIGHER INTEREST SUBSIDY, RECEIVE A BETTER CHANCE IN OBTAINING A LOAN (SINCE OTHERS WOULD NOT QUALIFY OR WOULD HAVE THEIR INCENTIVES REDUCED) IN THE FIRST PLACE, AND HAVE AN EASIER TIME REPAYING THE LOAN--THUS LOWERING THE CHANCE FOR DEFAULTS.

AACJC IS NOT ADVOCATING THAT LOW-INCOME STUDENTS AVAIL THEMSELVES OF STUDENT LOANS TO FINANCE THEIR UNMET NEEDS IN OBTAINING A POSTSECONDARY EDUCATION. WE ARE SAYING THAT THESE STUDENTS SHOULD HAVE ACCESS TO SUCH LOANS IF THEY SO DESIRE AND THAT DISPROPORTIONATELY SUBSIDIZING THE RICH, AT THE EXPENSE OF LOW-INCOME STUDENTS, IS A VERY COSTLY AND REGRESSIVE SOCIAL POLICY.

SPECIFIC RECOMMENDATIONS

There have been numerous proposals proffered to change the federal student loan programs in various ways. AACJC can support portions of most proposals--although in our opinion no proposal as of yet has adequately addressed our two concerns of cost and equity of access. Items of the proposals that we could support include the following:

(1) Maintenance of a direct loan program for needy students only to increase access for students unable to get loans because of discrimination practiced by traditional lenders or because of the absence of a state guarantee agency;

(2) Consolidation of the various loans before repayment to facilitate repayment by the student;

(3) Continuation of an interest subsidy to needy students only in the GSL program by use of an income eligibility cap or the like;

(4) The development of an income contingent repayment schedule for the student--to increase the likelihood of repayment.

(5) The extension of the maximum repayment period under certain conditions;

(6) The involvement of the Internal Revenue Service in limited ways in the repayment process--if the student so desired. We would prohibit IRS from certifying eligibility or duplicating any services rendered by the Office of Education. We would support only its aiding in the collection process to help lower default rates. (All citizens already have an "accounts-payable" relationship with IRS. Loans

REPAYMENT MIGHT BE DEDUCTED FROM REBATES OWED THE TAX PAYER AND THE LIKE.) THE LIMITED INVOLVEMENT OF IRS WOULD LOWER COSTS BY INSURING REPAYMENT OF ALL DEBTS.

THE AACJC POSITION ON FEDERAL STUDENT LOANS IS NOT A CLOSED BOOK. WE ARE STILL VERY OPEN TO APPROACHES THAT LOWER COSTS AND IMPROVE EQUITY OF ACCESS FOR LOW-INCOME STUDENTS. WE ARE SOMEWHAT LEERY, HOWEVER, OF GRANDIOSE SCHEMES THAT MIGHT ALTER LONG-RANGE FINANCING OF POSTSECONDARY EDUCATION, INCREASE TUITION GENERALLY, OR SHIFT MORE BURDEN OF PAYING FOR POSTSECONDARY EDUCATION ONTO THE STUDENT.

I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

THE DISTRIBUTION OF TYPES AND PACKAGES OF STUDENT AID AMONG FRESHMEN

A Paper Prepared by the Policy Analysis Service of the
American Council on Education

Produced as part of a project funded by the Lilly Endowment

Washington, D.C.

May 22, 1979

BACKGROUND

This analysis of the distribution of types and packages of student aid, emphasizing federal need-based aid, will discuss the proportion of students receiving assistance by family income, level of student charges, and control of institution, and propose some policy implications from the data presented.

The use of first-time, full-time freshman data has the advantage of describing the variety of aid colleges and the government provide for the students' first year, when they are making a commitment to attend college in general and a decision about a specific college in particular. The use of CIRP* data for the analysis enables us to analyze aid received by individual students with a specific family income attending colleges and universities with particular characteristics. These data, however, cannot be assumed to reflect accurately the distribution of all forms of aid for all four classes of undergraduates. For example, the institution has discretion in selecting recipients for certain forms of assistance and therefore must make judgments regarding which students receive different forms of support; loans are a specific example of a form of assistance which is probably not uniformly distributed among all four classes of students, because of institutional and commercial lender reluctance for freshmen to become heavily indebted, and perhaps reluctance on the part of the freshmen themselves. It should also be emphasized that, since part-time freshmen are not included, one cannot assume that this data and analysis would be valid for these students.

FEDERAL POLICY IMPLICATIONS

- Aid is widely available across the family income spectrum but is especially concentrated among low-income students, primarily because of the size of the SEOG program and its formula which targets the funds on low-income students. There are still, however, substantial numbers of low-income students, particularly in low-tuition institutions, who apparently do not receive any aid, including federal aid. The hypothesis is that these students are primarily financially independent students, and dependent students disqualified by family assets; there should be further analysis of the precise reasons for this significant proportion of low-income students who receive no aid.

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*The Cooperative Institutional Research Program (CIRP) conducts an annual national sample survey of first-time full-time freshmen cosponsored by the ACE and UCLA. The questionnaire is filled out by the students at the beginning of the fall semester.

9[illegible]

- Since this analysis does not include data on amounts of aid received under the various programs, it is not possible to make precise statements about what proportion of these students' expenses are covered by student aid. Making some assumptions, however, about the amounts received by income groups under the BEOG formula, and about average grants under the other programs,* we can tentatively assume that many students receive modest support (e.g., $500-700), that very low-income students receive more (since they receive a larger BEOG** and receive more of the grant packages), but that there is still a proportion of low-income students, even in high-tuition institutions, who get a BEOG, perhaps a GSL, but no college, state, or other federal grant or federal need-based self-help. Further analysis is needed to identify better the characteristics of these students, how they are financing their educations, and the institutional resources, or lack thereof, which produce such a substantial percentage of "BEOG only" awards.

- In addition to supplementing grants for low-income students, the self-help programs have a distinctive role in aiding slightly higher-income students, particularly in higher-tuition institutions, who have documented need but who are not eligible for a federal need-based grant, or who are attending institutions with inadequate SEOG funds.

- In summary, (a) the BEOG formula and the Uniform Methodology which is widely used in awarding campus-based federal aid, should be evaluated in terms of the characteristics of the low-income students not eligible for a BEOG, or the campus-based program, (b) recommended appropriation levels for the need-based self-help programs should be developed with the understanding that these funds will be awarded to many students who will not receive federal grants but who have documented financial need, (c) further investigation is needed into how the large number of "BEOG only" recipients are financing their education to explore to what extent funding insufficiency is creating undue hardship for these students and their families.

PROPORTION OF AIDED STUDENTS

Of all freshmen, regardless of income, almost half (47%) received some form of aid from some source: federal, state, and/or private (Table 1). A little less than half of these students had family incomes below $12,500 (Table 2). The income for independent students is the income of the student himself, and for dependent students, that of the student's family. Thus not all low-income students received aid, and many who received aid are from families considered middle-income.

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*Atelsek and Gomberg. Estimated Number of Student Aid Recipients 1976-77. HEP Report #36, ACE, September 1977.

**The BEOG legislation (Higher Education Act Title IV Sec. 411(a)(2)(B)(i)), however, limits the maximum award to half the student's cost of attendance.

The most widely available form of aid in 1977-78 was the BEOG, a federal program awarded on the basis of a single national formula. BEOG awards were received by 23% of all freshmen (Table 3). The next most widely available forms of aid were state grants and grants from colleges from their own resources (13% received a grant from each source). The college-work-study (CWS) program followed next with 11% of the students receiving an award.

After this point, there was another large drop in the proportion of all students receiving any form of aid: NDSL, GSL, and SEOG were each awarded to approximately 6% of the students. Since many more NDSL and GSL awards are generally awarded to undergraduates than SEOGs*, the two loan programs appear to be underrepresented among freshmen.

BEOG, SEOG, CWS, and NDSL awards are all need based, and 30% of all freshmen were aided by one or more of these programs (unduplicated count, (Table 4)). Though 30% of all freshmen came from families with incomes below $12,500 (Table 5), not all these low-income students were aided by the federal need-based programs: 70% received aid from some source, but only 60% received any federal need-based award (Tables 1 and 4). The most obvious groups who would have trouble qualifying for federal need-based aid in spite of low-income status are financially independent students, and dependent students whose families have assets, particularly farm assets. In summary, even though 30% of all freshmen received federal need-based aid, a significant proportion of aided students were from families with incomes above $12,500; and a significant proportion of freshmen with family incomes below $12,500 did not receive federal aid.

FEDERAL NEED-BASED GRANTS: BEOG AND SEOG

Low-income students received a higher percent of the BEOG and SEOG awards than any other form of federal need-based assistance (Table 6). 69% of BEOG awards and 66% of SEOG awards went to students with family incomes below $12,500.

The BEOG award was, however, the only form of federal need-based assistance received by 57% of the BEOG recipients (Table 7). 75% of these "BEOG only" recipients were attending institutions with tuition of less than $1000, but 12% were attending institutions with tuition over $2000 (Table 8). A substantial number of students at institutions of the same tuition level did not receive a BEOG but did receive a CWS and/or NDSL award (Table 9). The question arises as to why these BEOG recipients did not receive a package of federal need-based aid when non-BEOG recipients were receiving federal self-help.

An analysis of "BEOG only" recipients at institutions with tuition above $2000 indicates that one-half did receive a state and/or college grant in addition to their BEOG (Table 10). A related consideration is that the median income for "BEOG only" recipients is higher in institutions with tuition above $700 than for other BEOG recipients in similar institutions, which may reflect the rationing philosophy of student financial aid officers (Table 11). It would be useful to know if many of those who received "BEOG only" were attending the same institutions as those receiving only CWS and/or NDSL, since the median income for that latter group is even higher than for "BEOG only" students. That is, can we conclude that financial aid officers, even at higher-priced institutions, give a BEOG + SEOG* award (with or without self-help) to the lowest income students, BEOG with federal self-help to the next lowest, BEOG only to the next higher, and federal self-help only to the highest eligible income students?

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*Atelsek and Gomberg. Ibid.

In contrast to BEOG awards, most SEOG awards are part of a federal package. Only 8% of the SEOG recipients received a SEOG only with no other federal need-based aid (Table 7).

STATE AND INSTITUTIONAL GRANTS

There were approximately the same number of state and college grants made to 1977-78 freshmen, but the income distribution was slightly different. Almost half of the state awards went to students from families with incomes under $12,500, whereas about one-third of college grants went to such students (Table 6).

Approximately half of those receiving state or college grants also received one or more forms of federal need-based aid. Approximately 13% of the freshmen received a state grant, but only 8% received a state grant plus one or more forms of federal need-based aid (Tables 3 and 12). Approximately 13% received a college grant, but only 7% received a college grant plus one or more forms of federal need based aid.

Relatively few students received both a BEOG and a SEOG plus a state and/or college grant; whereas a few more received a BEOG plus a state and/or college grant but not SEOG (1.5% vs. 5.7%) (Table 12).

SELF-HELP PROGRAMS

The forms of self-help included in this analysis are the three federal programs (College Work/Study, National Direct Student Loan, and Guaranteed Student Loan) plus college loans and other private loans. Student earnings apart from these programs are not covered.

Among these self-help programs, the program with the largest proportion of low-income students is the CWS program; slightly over half the CWS recipients are from families with incomes under $12,500 (Table 6). Almost half the NDSL recipients (45%) and college loan recipients (43%) come from families below $12,500. Students from families of under $12,500 constitute less than a third of GSL and other private loan recipients.

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*SEOG awards are generally made only to very low-income students because the statute (Higher Education Act Title IV Sec. 413C.(a)(2)(C)) specifies that a student must have "exceptional financial need" to be eligible for a SEOG. OE regulation has defined exceptional need to mean that the expected family contribution cannot exceed 1/2 the cost of attendance. (Federal Register, 11-24-76, p. 51977)

Federal self-help is often the only form of federal assistance received by many students. Over a fourth of the CWS and NDSL recipients received only that one form of federal aid, and 19% of freshmen receiving federal need-based aid received only CWS and/or NDSL. A significantly higher proportion of these students were attending institutions with tuition above $2000 than lower-priced institutions (Table 9). These were predominately students from families with incomes above $12,500 (Table 13). Nearly half of the GSL recipients received no other form of federal aid (Table 7).

TRENDS OVER TIME IN DISTRIBUTION AND PACKAGING OF FEDERAL AID

The majority of aided students (nearly two out of three) only received a single award. The BEOG program continues to dominate the need-based programs and nearly half of the recipients still receive only a BEOG.

Tables 14 and 15 trace changes in the packaging and distribution of awards over a recent three year period (1974-75 to 1977-78). Only the OE need-based awards are examined (BEOG, SEOG, CWS, and NDSL). Table 14 shows that a slightly higher proportion of aid recipients are currently receiving packages of aid than in the past.

Table 15 examines the distribution of need-based awards by level of family income. The grant monies (BEOG and SEOG) continue to aid predominately low-income students. On the other hand, the self-help awards are increasingly being awarded to higher-income students. This shift has been dramatic over the last three years and is attributed at least in part to the growth in the BEOG program.

Table 1

PROPORTION OF FRESHMEN RECEIVING AID[1] BY FAMILY INCOME, INSTITUTIONAL CONTROL, AND TUITION LEVEL 1977-78

Control + Tuition and Fees	Family Income Less than $6000	$6-10,000	$10-12,500	$12,5-15,000	$15-20,000	$20-25,000	$25,000 and over	Total
Pub. < $300	66%[2]	59%	45%	34%	29%	25%	22%	37%
" $301-700	80%	71%	59%	47%	41%	32%	20%	46%
" $701-900	74%	72%	62%	55%	50%	40%	22%	44%
" > $900	73%	73%	65%	60%	53%	38%	21%	46%
Priv. < $1000	86%	82%	83%	72%	47%	38%	21%	59%
" $1001-2000	88%	86%	79%	74%	71%	62%	43%	68%
" $2001-3000	88%	88%	85%	80%	78%	70%	37%	65%
" > $3000	89%	92%	88%	86%	83%	75%	32%	56%
Total	76%	72%	61%	52%	48%	39%	25%	47%
	70%			49%		30%		

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[1] Aid includes one or more of the following: grants, loans and/or work/study, from federal, state and/or private sources, and Social Security and V.A. educational benefits.

[2] To read: 66% of 1977 freshmen who had family incomes of less than $6,000, and who were enrolled in public institutions with tuition of less than $300 received some form of aid.

Source: ACE/PAS, February 1979, using CIRP data on first-time full-time freshmen.

Tab[illegible] 2

DISTRIBUTION OF AIDED[1] FRESHMEN
BY FAMILY INCOME, INSTITUTIONAL CONTROL, AND TUITION LEVEL
1977-78

Control + Tuition and Fees	Family Income							
	Less than $6000	$6-10,000	$10-12,500	$12,5-15,000	$15-20,000	$20-25,000	$25,000 and over	Total
Pub. < $300	5.3%[2]	2.9%	2.1%	1.8%	2.3%	2.0%	3.1%	19.6%
" $301-700	6.9%	5.4%	4.2%	3.4%	4.5%	3.0%	3.2%	30.6%
" $701-900	1.7%	1.8%	1.7%	1.6%	2.6%	2.0%	2.3%	13.6%
" > $900	0.8%	1.0%	0.9%	1.0%	1.6%	0.9%	0.9%	7.2%
Priv. < $1000	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	1.3%
" $1001-2000	1.6%	1.3%	1.1%	1.0%	1.4%	1.0%	1.4%	8.9%
" $2001-3000	1.0%	1.2%	1.2%	1.2%	2.0%	1.6%	1.9%	10.2%
" > $3000	0.6%	0.7%	0.8%	0.8%	1.6%	1.5%	2.6%	8.7%
Total	18.2%	14.6%	12.2%	11.0%	16.2%	12.2%	15.5%	100%
	45%			27.2%		27.7%		

[1] Aid includes one or more of the following: grants, loans, and/or work/study from federal, state and/or private sources, Social Security and V.A. educational benefits.

[2] To read: 5.3% of 1977 freshmen who received some form of aid were enrolled in public institutions with tuition of less than $300.

Source: ACE/PAS, February 1979, using CIRP data on first-time full-time freshmen.

Table 3

PROPORTION OF FRESHMEN RECEIVING VARIOUS FORMS OF AID 1977-78

Aid Form	% Receiving
BEOG	23%[1]
State Grant	13%
College Grant	13%
CWS	11%
SEOG	6%
NDSL	6%
GSL	6%
Social Security Educational Benefits	4%
College Loan	3%
Other Loan	3%
V.A. Educational Benefits	0.4%

[1] To read: 23% of all 1977-78 freshmen received a BEOG.

Source: ACE/PAS, February 1979, using CIRP data on first-time full-time freshmen.

Table 4

PROPORTION OF FIRST-TIME FULL-TIME FRESHMEN RECEIVING OFFICE OF EDUCATION NEED-BASED AID BY GROSS FAMILY INCOME AND LEVEL OF TUITION AND FEES

(UNDUPLICATED COUNT)
1977-78

Tuition and Fees	Family Income						Total
	<$10,000	$10,000-$12,499	$12,500-$14,999	$15,000-$19,999	$20,000-$24,999	>$25,000	
<$700	62%[a]	36%	21%	15%	9%	6%	26%[c]
$701-1,000	65%	46%	34%	26%	16%	7%	28%
$1,001 2,000	77%	57%	45%	36%	23%	11%	38%
>[illegible]2,000	78%	68%	59%	52%	38%	12%	37%
TOTAL	66%[b]	46%	34%	28%	18%	8%	30%[d]
	60%		30%		11%		

[a] 62% of the first-time full-time (FTFT) freshmen in institutions with tuitions of less than $700, and from families of less than $10,000 gross income, received one or more forms of Office of Education need-based aid in 1977-78, i.e., BEOG, SEOG, NDSL, or CWS award.

[b] 66% of FTFT freshmen from families of less than $10,000 gross income received one or more forms of OE need-based aid.

[c] 26% of FTFT freshmen in institutions with tuition less than $700 received one or [illegible]re forms of OE need-based aid.

[d] 30% of FTFT freshmen received one or more forms of OE need-based aid.

Source: ACE/PAS, February 1979 using CIRP data on first-time full-time freshmen.

Table 5

DISTRIBUTION OF FRESHMEN
BY FAMILY INCOME, INSTITUTIONAL CONTROL, AND TUITION LEVEL
1977-78

Control + Tuition and Fees	Family Income Less than $6000	$6-10,000	$10-12,500	$12,5-15,000	$15-20,000	$20-25,000	$25,000 and over	Total
Pub. < $300	3.8%[1]	2.3%	2.2%	2.5%	3.8%	3.8%	6.6%	24.9%
" $301-700	4.1%	3.6%	3.4%	3.4%	5.2%	4.4%	7.5%	31.5%
" $701-900	1.1%	1.2%	1.3%	1.4%	2.4%	2.4%	4.9%	14.5%
" > $900	0.5%	0.6%	0.7%	0.8%	1.4%	1.2%	2.1%	7.3% [78.2%]
Priv. < $1000	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%	1.1%
" $1001-2000	0.9%	0.7%	0.7%	0.6%	1.0%	0.8%	1.5%	6.1%
" $2001-3000	0.5%	0.6%	0.7%	0.7%	1.2%	1.1%	2.5%	7.3%
" > $3000	0.3%	0.4%	0.4%	0.5%	0.9%	0.9%	3.9%	7.3% [21.8%]
Total	11.3%	9.6%	9.4%	10.0%	16.0%	14.7%	29.1%	100.0%
	30.3%			26%		43.8%		

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[1] To read: 3.8% of all 1977 freshmen had family incomes of less than $6,000, and were enrolled in public institutions with tuition of less than $300.

Source: ACE/PAS, February 1979, using CIRP data on first-time full-time freshmen.

Table 6

DISTRIBUTION OF STUDENT AID AWARDS TO FIRST-TIME FULL-TIME FRESHMEN BY LEVEL OF FAMILY INCOME
1977-78

Student Aid Program	Family Income Less than $6,000	$6,000-$9,999	$10,000-$12,499	$12,500-$14,999	$15,000-$19,999	$20,000-$24,999	$25,000 & over	Total
BEOG	31.0%[a]	23.0%	14.6%	9.7%	10.1%	5.4%	6.2%	100.0%
SEOG	29.0	21.4	15.4	11.6	12.4	5.5	4.6	100.0
CWS	20.0	16.7	14.5	12.4	17.8	10.0	8.5	100.0
NDSL	15.0	15.5	14.9	13.9	20.7	12.0	8.0	100.0
GSL	9.9	9.6	11.1	12.6	21.1	16.9	18.8	100.0
State Scholarship or Grant	15.2	15.9	14.4	13.4	18.5	11.3	11.3	100.0
College Grant	9.5	10.8	11.4	11.8	19.5	15.9	21.2	100.0
College Loan	15.6	13.4	13.7	14.2	18.7	12.7	11.6	100.0
All Other Loans	9.3	9.0	11.0	11.6	19.9	17.6	21.5	100.0
Personal G.I. Benefits	37.4	17.5	17.6	7.2	6.9	4.3	9.1	100.0
Social Security	38.9	24.2	12.2	8.3	7.5	4.1	4.8	100.0
Students receiving aid from at least one of the above programs (unduplicated count)	17.0	14.1	12.0	11.1	16.6	12.6	16.7	100.0

Note: More detailed distributions of these programs by family income and cost of institution attended are available from the Policy Analysis Service.

[a] To read: 31.0% of the total BEOG awards received by first-time full-time freshmen (312,000) went to students with a gross family income of less than $6,000.

Source: ACE/PAS, February 1979, based on CIRP data on first-time full-time freshmen.

Table 7

PROPORTION OF FEDERALLY AIDED FRESHMEN RECEIVING ONLY ONE FORM OF FEDERAL AID 1977-78

Aid Form	% of Recipients Receiving Only This Form
BEOG	57%[1]
SEOG	8%
CWS	27%
NDSL	27%
GSL	47%

[1] To read: 57% of BEOG recipients did not receive a SEOG, CWS, NDSL, or GSL award.

Source: ACE/PAS, February 1979 using CIRP data on first-time, full-time freshmen.

Table 8

COST OF INSTITUTION DISTRIBUTION OF "BEOG ONLY" FRESHMEN RECIPIENTS[1]
BY COST OF INSTITUTION
1977-78

Tuition + Fees	% of Recipients
< $700	50%[2]
$701-1000	25%
$1001-2000	13%
> $2000	12%
	100%

[1] Freshmen receiving a BEOG but no SEOG, CWS, or NDSL.

[2] To read: 50% of the "BEOG only" recipients were enrolled in institutions with tuition of less than $700.

Source: ACE/PAS, February 1979, using CIRP data for first-time full-time freshmen.

Table 9

DISTRIBUTION OF AWARDS RECEIVED BY FRESHMEN BY LEVEL OF TUITION AND FEES CHARGED 1977-78

Type of Award or Package	Tuition and Fees				
	Total	<$700	$701-1,000	$1,001-2,000	>$2,000
BEOG only	43%[1]	59%	43%	37%	22%
SEOG only	2	1	2	2	2
CWS only	10	7	10	10	16
NDSL only	6	2	8	7	10
Subtotal	61%	69%	63%	56%	50%
BEOG + SEOG	6%	6%	7%	7%	3%
BEOG + CWS or NDSL	17	15	16	20	20
BEOG + SEOG + CWS	5	5	5	6	4
SEOG + CWS or NDSL	3	1	3	4	7
CWS + NDSL	3	1	2	3	7
Other	5	3	5	6	7
Subtotal	39%	31%	38%	46%	48%
Total	100%	100%	100%	100%	100%

[1] To read: 45% of 1977-78 freshmen receiving federal need-based aid received only a BEOG, and no other federal need-based aid.

Note: Totals may not add due to rounding.

Source: ACE/PAS, February 1979, based on CIRP data on first-time full-time freshmen.

Table 10

"BEOG ONLY" + GSL/STATE/COLLEGE/STATE & COLLEGE AWARDS--1977-78

Tuition and Fees	Family Income							
	<$6000	$6000-9999	$10,000-12,499	$12.5-14,999	$15-19,999	$20-24,999	>$25,000	Total
<$700								
BEOG only Fed.[1]	100%	100%	100%	100%	100%	100%	100%	100%
+ state & coll.	1%	1%	1%	2%	1%	3%	1%	1%
+ state	8%	11%	12%	10%	11%	7%	10%	10%
+ coll.	3%	6%	8%	6%	2%	4%	4%	4%
+ GSL	2%	3%	4%	5%	6%	3%	3%	3%
BEOG only[2]	86%	79%	75%	77%	80%	83%	82%	82%
$701-$1000								
BEOG only Fed.[1]	100%	100%	100%	100%	100%	100%	100%	100%
+ state & coll.	4%	4%	4%	4%	4%	3%	3%	4%
+ state	19%	22%	23%	21%	19%	15%	14%	20%
+ coll.	7%	7%	7%	7%	5%	5%	4%	6%
+ GSL	6%	7%	10%	14%	14%	13%	12%	10%
BEOG only[2]	64%	60%	56%	54%	58%	64%	67%	60%
$1001-2000								
BEOG only Fed.[1]	100%	100%	100%	100%	100%	100%	100%	100%
+ state & coll.	6%	7%	9%	7%	3%	2%	2%	6%
+ state	23%	28%	24%	22%	18%	13%	6%	21%
+ coll.	9%	9%	10%	9%	7%	5%	4%	8%
+ GSL	10%	12%	18%	20%	14%	13%	8%	13%
BEOG only[2]	52%	44%	39%	42%	58%	67%	80%	52%
> $2000								
BEOG only Fed.[1]	100%	100%	100%	100%	100%	100%	100%	100%
+ state & coll.	18%	21%	22%	20%	16%	10%	4%	15%
+ state	32%	29%	26%	24%	18%	16%	11%	22%
+ coll.	13%	14%	14%	14%	16%	11%	8%	13%
+ GSL	15%	17%	20%	25%	23%	22%	16%	19%
BEOG only[2]	22%	19%	18%	17%	27%	41%	61%	31%
TOTAL BEOG ONLY FED.[1]	100%	100%	100%	100%	100%	100%	100%	100%
TOTAL BEOG ONLY[2]	75%	64%	58%	56%	60%	66%	73%	66%

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[1] BEOG only Fed. includes those students for whom the only source of federal need-based aid is a BEOG. It does not include any students receiving SEOG, CWS, or NDSL funds. Included students may, however, receive federally guaranteed loans through the GSL program.

[2] BEOG only as the only form of aid is slightly underestimated due to some overlap with GSL recipients and state or college aid recipients.

Note: Totals do not add due to rounding.

Source: ACE/PAS, March 1979, based on CIRP data on 1977 first-time full-time freshmen.

Table 11

MEDIAN FAMILY INCOME OF FRESHMEN RECEIVING FEDERAL STUDENT AID BY LEVEL OF TUITION & FEES CHARGED 1977-78

Aid Package	< $700	$701-$1000	$1001-2000	>$2000
BEOG & SEOG	less than $ 6,000	$ 8,448	$ 8,180	$ 9,917
BEOG & SEOG & CWS	7,504	8,452	7,704	10,784
BEOG & SEOG & NDSL &/or CWS	7,556	9,394	8,762	9,739
BEOG & CWS &/or NDSL	7,940	9,884	9,304	12,061
BEOG only	7,814	10,323	11,554	13,582
SEOG & CWS &/or NDSL	12,377	14,076	14,944	15,778
SEOG only	10,675	14,671	14,953	16,107
CWS only	15,693	17,443	16,569	19,335
NDSL only	15,699	17,647	17,156	19,132
CWS & NDSL	14,692	16,479	16,566	17,498
Undup. Count	8,402	11,489	11,708	14,195

Source: ACE/PAS, March 1979, using CIRP data on first-time, full-time freshmen.

Table 12

PROPORTION OF FRESHMEN RECEIVING AID PACKAGES WHICH INCLUDED BOTH FEDERAL NEED-BASED AID AND STATE OR COLLEGE GRANTS
1977-78

Award Package	% of All Freshmen Receiving Package
BEOG[1] + state/college grant	5.7%[2]
BEOG + SEOG[1] + state/college grant	1.5%
BEOG/SEOG/CWS/NDSL + state grant	8.2%[3]
BEOG/SEOG/CWS/NDSL + college grant	7.0%
BEOG/SEOG/CWS/NDSL + state and/or college grant	12.4%

[1] These categories may or may not include self-help aid such as loans and work/study.

[2] To read: 5.7% of the 1977-78 freshmen received a BEOG plus a state and/or college grant.

[3] To read: 8.2% of the 1977-78 freshmen received a state grant plus one or more of the following: BEOG, SEOG, NDSL, CWS.

Source: ACE/PAS, February 1979, using CIRP data on first-time full-time freshmen.

Table 13

DISTRIBUTION OF FRESHMEN FEDERAL STUDENT AID RECIPIENTS BY GRANTS VS. SELF-HELP AWARDS

	Grants Only[a]	Self-Help Only[b]	Combination Grants and Self-Help[c]	Total[d]
A. Distribution of federally-aided freshmen who have:				
Income < $12,500	57.9%[e]	7.4%	34.8%	100.0%
Income > $12,500	39.7%	36.1%	24.2%	100.0%
Total	50.2%	19.5%	30.3%	100.0%
B. Distribution of federally-aided freshmen who receive each type of package, by:				
Income < $12,500	66.6%[f]	21.8%	66.3%	57.7%
Income > $12,500	33.4%	78.2%	33.7%	42.3%
Total	100.0%	100.0%	100.0%	100.0%
C. Distribution of Federally-aided freshmen by type of aid package, and by:				
Income < $12,500	33.4%[g]	4.3%	20.1%	57.8%
Income > $12,500	16.8%	15.3%	10.2%	42.2%
Total	50.2%	19.5%	30.3%	100.0%

a) Includes students who received only a BEOG, only a SEOG, or only a BEOG + SEOG.
b) Includes students who received only CWS, only NDSL, or only CWS + NDSL.
c) Includes students who received a BEOG and/or a SEOG and CWS and/or NDSL.
d) Includes students who received any combination of federal need-based student aid (BEOG, SEOG, CWS, NDSL).
e) To read: 57.9% of freshmen from families making less than $12,500, and receiving one or more forms of federal need-based aid, received only federal grants and no federal self-help.
f) To read: 66.6% of freshmen receiving only federal grants came from families making less than $12,500.
g) To read: 33.4% of freshmen receiving one or more forms of federal need-based aid received grants only and came from families making less than $12,500.

Source: ACE/PAS, February 1979 based on CIRP data on 1977 first-time full-time freshmen.

Table 14

DISTRIBUTION OF AWARDS TO FIRST-TIME FULL-TIME FRESHMEN BY TYPE OF PACKAGE RECEIVED

1974-1977

Type of Award or Package	1974-75	1975-76	1976-77	1977-78
BEOG only	42.8%	44.2%	41.3%	42.9%[1]
SEOG only	2.5	2.2	1.7	1.7
CWS only	10.7	9.5	9.5	10.2
NDSL only	7.5	7.4	7.4	6.1
Subtotal	63.5%	63.3%	59.9%	60.9%
BEOG plus SEOG	4.6%	4.6%	5.3%	5.6%
BEOG plus CWS/NDSL	18.8	18.6	18.9	17.1
BEOG plus SEOG plus CWS	-	3.4	4.1	4.8
SEOG plus CWS/NDSL	2.6	2.9	3.2	3.4
CWS plus NDSL	-	3.1	3.2	3.2
Other	10.5	4.1	5.4	5.0
Subtotal	36.5%	36.7%	40.1%	39.1%
Total	100%	100%	100%	100%

[1] To read: 42.9% of the 1977 freshmen receiving federal need-based aid received only a BEOG and no other federal need-based aid.

Source: ACE/PAS, March 1979 based on CIRP data on 1977 first-time-full-time freshmen.

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Table 15

DISTRIBUTION OF AIDED STUDENTS BY LEVEL OF FAMILY INCOME AND TYPE OF PACKAGE

Type of Award or Package	1974-75	1975-76	1976-77	1977-78
A. Unduplicated Count*				
Less than $10,000	51.0%	50.0%	43.2%	43.7%
$10,000 - 14,999	28.6	27.5	29.4	24.9
$15,000 - 24,999	16.1	17.7	21.4	23.0
$25,000 and over	4.2	4.8	6.1	8.3
Total	100.0%	100.0%	100.0%	100.0%
B. BEOG only				
Less than $10,000	51.8%	56.2%	50.3%	52.6%
$10,000 - 14,999	27.0	25.0	27.1	22.8
$15,000 - 24,999	16.2	13.7	16.3	16.5
$25,000 and over	5.0	5.1	6.3	8.2
Total	100.0%	100.0%	100.0%	100.0%
C. SEOG only				
Less than $10,000	43.6%	40.2%	27.4	26.8%
$10,000 - 14,999	28.6	30.1	35.4	26.5
$15,000 - 24,999	19.5	23.3	29.9	33.0
$25,000 and over	8.3	6.5	7.4	13.6
Total	100.0%	100.0%	100.0%	100.0%

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*Includes students receiving some form of OE need-based student aid: BEOG, SEOG, CWS or NDSL.

Table 15 (con't)

Type of Award or Package	1974-75	1975-76	1976-77	1977-78
D. CWS only				
Less than $10,000	31.0%	24.3%	15.0%	10.8%
$10,000 - 14,999	34.7	32.6	30.1	25.6
$15,000 - 24,999	27.0	33.6	41.1	45.2
$25,000 and over	7.2	9.5	13.8	18.4
Total	99.9%	100.0%	100.0%	100.0%
E. NDSL only				
Less than $10,000	27.5%	17.5%	11.2%	9.6%
$10,000 - 14,999	40.2	34.1	31.5	23.7
$15,000 - 24,999	27.7	40.5	47.3	50.1
$25,000 and over	4.6	7.9	9.9	16.6
Total	100.0%	100.0%	100.0%	100.0%
F. BEOG plus SEOG				
Less than $10,000	69.4%	68.6%	63.6%	64.6%
$10,000 - 14,999	20.4	22.9	24.8	21.6
$15,000 - 24,999	8.3	6.7	9.2	10.7
$25,000 and over	1.9	1.8	2.4	3.0
Total	100.0%	100.0%	100.0%	100.0%
G. BEOG plus CWS/NDSL				
Less than $10,000	61.1%	57.7%	50.7%	51.6%
$10,000 - 14,999	26.9	27.9	32.0	27.5
$15,000 - 24,999	10.1	12.1	14.7	17.2
$25,000 and over	1.9	2.3	2.7	3.7
Total	100.0%	100.0%	100.1%	100.0%

Table 15 (con't)

Type of Award or Package	1974-75	1975-76	1976-77	1977-78
H. SEOG plus CWS/NDSL				
Less than $10,000	52.5%	34.0%	22.4%	16.5%
$10,000 - 14,999	32.8	37.6	41.9	35.1
$15,000 - 24,999	12.3	25.2	31.5	41.8
$25,000 and over	2.4	3.3	4.2	6.5
Total	100.0%	100.0%	100.0%	100.0%
I. CWS plus NDSL				
Less than $10,000	—	20.6%	9.9%	10.9%
$10,000 - 14,999	—	39.5	36.6	27.7
$15,000 - 24,999	—	35.4	46.3	51.0
$25,000 and over	—	4.6	7.2	10.2
Total	—	100.0%	100.0%	100.0%
J. BEOG plus SEOG plus CWS				
Less than $10,000	—	73.5%	61.0%	60.6%
$10,000 - 14,999	—	17.2	25.3	25.4
$15,000 - 24,999	—	6.6	10.0	10.5
$25,000 and over	—	2.8	3.7	3.4
Total	—	100.0%	100.0%	100.0%

Source: ACE/PAS, March 1979, based on CIRP data on first-time full-time freshmen.

Mr. **Bailey**. Thank you.

If there are no questions at this time, allow me to yield to a Member of the House with superior knowledge and experience, and turn the gavel over to Mr. John Brademas.

Mr. **Brademas**. We will hear from Mr Willis Weatherford next.

Mr. Weatherford, would you go ahead, please?

STATEMENT OF WILLIS D. WEATHERFORD, PRESIDENT, BEREA COLLEGE, REPRESENTING THE NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES

Mr. **Weatherford**. Mr. Chairman, as indicated, my name is Willis Weatherford, and I am president of Berea College, which is an independent liberal arts college in Kentucky, with over 1,400 students enrolled. I am also a member of the board of directors of the National Association of Independent Colleges and Universities, with approximately 800 members across the country.

I am accompanied today by Mr. Peter Gossens, who is the director of government relations for the National Association of Independent Colleges and Universities.

I am very pleased to have this chance to testify and talk to you a little bit about the reauthorization of the self-help aspect of the student assistance programs contained in the Higher Education Act.

I will just highlight the written testimony, which has been entered into the record, and talk about some particular aspects of it.

First, let me try to put this in a little broader perspective in making a proposal for the policy framework for the Federal student assistance programs.

Just over a month ago, NAICU's board chairman, George Rainsford of Kalamazoo College, and the vice chairman, Timothy Healy, president of Georgetown University, appeared before this committee and described our recommendations for reauthorization of the grant aspect, but also suggested a new policy framework within which grants and self-help might be placed.

That proposal called for the establishment of a Federal policy goal in the legislation that every eligible student could receive sufficient aid under basic grants and supplemental educational opportunity grants, and State student assistance grants, so that the sum of these grant funds, plus parental contribution, would add up to 75 percent of the student's needs. That leaves a question about the other 25 percent. That is what I would like to speak about today.

The second part of this Federal policy proposal is that the Government should establish a self-help expectation on the part of every student, so that every student would be expected to provide 25 percent of his own needs through his own resources outside of grants and parental help, through college work study and through loans. This would give the student some responsibility for financing his own education, and that is really the key to this proposal to provide adequate grants to meet 75 percent of the need, but an expectation and even a requirement that every student meet a quarter of his needs through self-help, either work or loans.

Let me just digress for a moment to say something about my own college, Berea College in Kentucky. We followed this philosophy of self-help for 123 years. We seek students from low-income families. In fact, if a student has sufficient money to easily pay the cost of education, we don't accept him. So we put all of our resources in the low-income students. We do not charge the family tuition, but we do charge room and board.

Every student needs to work in order to pay that room and board. They work for modest wages, and they not only earn the money through this system, but they get a whole lot in addition. They get the experience of work. They get the learning of work. They get the understanding of what it means to do a job well. They learn to show up on time. They learn valuable skills.

In addition, they learn self-reliance, independence, and self-confidence. They are not completely beholden to us, to the Government, or to their parents. In other words, they have a sense of standing on their own two feet, at least to some extent.

I believe that these students, through work, get a lot more than just the money. They get the experience. They get firsthand concepts and attitudes that I think made this country what it is: innovation and self-reliance. They get some character building as well as the money. I think that that is terribly important.

You might summarize it this way. Work is the backbone of Berea's character development as well as its financial aid system. Just as hard work and determination have been the backbone of American prosperity and ingenuity, if you take away the backbone of work from either system, the Berea College system or what I think of as the American system, both efficiency and character will suffer.

Remove the backbone of self-help from the Federal student financial aid program, and you create leaders for tomorrow who are dependent on government rather than being dependent upon themselves through self-reliance.

This is a short hand way of saying, let's keep a self-help aspect, and we say one-quarter, in this total system, and not let grants do all the job.

Let me now turn to the specifics of our recommendations relating to the self-help programs—CWS, NDSL, and GSL.

In the college work study program, the NAICU proposals are that the college work study program is designed to sustain and build on the tremendous population and growth of this program over the last 16 years. Its continued appeal was demonstrated again last year when the Middle-Income Student Assistance Act's threshold funding for college work study at $500 million was put in place for fiscal year 1980.

We would like to propose that this gradually be increased from the $500 million level to $960 million level by fiscal year 1987. If fully funded, that authorized level, taken together with the 20 percent the institutions or off-campus employers would put in, would give us a total of about $1.2 billion which would go into work for postsecondary students. This would provide a large aspect of self-help within the total grant self-help program. It would give students the opportunity to learn through work as well as through books.

Along with that expansion of the authorized operating level, we would like to make two proposals for the legislation to correct current administrative practices.

First, the proposal would be to require the Commissioner, each year, to make intrastate reallotments of unexpended college work study funds carried over from the preceding fiscal year, and to do that by December 15 of the succeeding fiscal year.

This is authorized now, but it happens so late that the money does not get used the second time around. It needs to be reallocated early in order for students, really, to be able to make use of the funds.

A second administrative proposal that we would make would simply exclude the value of home equity from the assets that are considered, when we are considering parental contributions. We think that there is a real hardship there because home assets are completely illiquid.

Mr. Chairman, there are some people who have been advocating a change in the legislation to permit institutions to make college work study grants to students who have no demonstrated need. We do not support that.

We applaud any student who wants to work for this own support. But the taxpayer should not be called upon to pay for that wage, if there is not a demonstrated need.

We know that the proposal stems from a measure of frustration, and we have it at our college, because when the student hits that maximum, he has to back off from work, if he gets some extra grant, and that is very exasperating. But that problem has already been alleviated considerably by the authorization of going above the need-base level by as much as $200. We would advocate expanding that $200 amount to, let us say, $300 or $400, and further alleviate the problem, rather than completely giving Federal work study funds without regard to demonstrated need.

We think that we ought to hang on to the demonstated need insofar as the Federal work study funds are concerned. Let's keep the work aspect, let's keep it strong in the total assistance program.

Now, to turn to the loan aspect. The loan business, whether through the national direct student loan or the guaranteed student loan program, is far more controversial, and far more complex and chaotic than the work study program is.

Recently, I guess we have all been bombarded, both from HEW and the national press, in a campaign to discredit the usefulness of the NDSL and the GSL programs, raising the specter of hundreds and hundreds of thousands of students who had not repaid their loans. Obviously, there is a real problem.

However, I would like to point out that there are two real positive aspects about the loan program. The first is, the programs are working to assist millions of students and their families, many of whom would not ordinarily be able to get loans from commercial sources. So that they are getting an education through the loan program, and it is working.

Second, about 85 percent are paying back their loans. We are always talking about the 15 to 17 percent who are not, but let's talk about the much larger group who are repaying their loans and are doing it in a timely fashion and getting an education from it.

So those two aspects are very important: the system is working, though not perfectly. We recognize that not only our colleges are not doing an adequate job in collecting, neither, might I add, is the Federal Government.

I think that we can make improvements on that. Let's not throw out the baby with the bathwater. Let's not get rid of the whole program because we are not yet able to administer it satisfactorily.

For these reasons, NAICU has neither proposed nor supported any of the current legislative proposals that call for a major revamping. Let's have an evolutionary approach, and not just turn the whole thing upside down approach. I think that we have heard this more than once this morning.

We do not think that it would be right either to completely federalize the system, or to completely decentralize it to the commerical banks. What we propose is to extend the existing NDSL program through the year 1987, and to extend the current GSL program, without major changes, so that at least three things could happen.

First, we should concentrate our efforts on getting better administrative arrangements, and that means collections, obviously. Second, allow adequate time for the States and institutions to adjust themselves to the changes enacted in 1976 and again in the Middle Income Student Assistance Act last year.

Third, allow the program to prove or disprove its ultimate worth in fulfilling the original mission of making loans available to middle-income students, to give them not only access, but choice. We feel that it is very important to maintain this flexibility.

It is our belief that all of these concerns, taken in the context of the position statement adopted by the NAICU membership—especially the establishment of the Federal policy goal of 75 percent parental help and grants, and 25 percent self-help through either work or loan—we don't have to repeal the present laws, and attempt to reinvent the student loan wheel. Let's take the programs we have, and develop them, make them work better.

Indeed, we would also agree, as others have indicated this morning, that several of the other kinds of student loan programs might be coalesced and work into the NDSL and GSL programs, so that we not have quite so many different varieties.

A very large portion of the 2 million students enrolled in independent colleges and universities do depend heavily on loans. We think that it is important to maintain the NDSL and GSL program in fact, for these students.

Our starting point for the consideration of refinements and modifications is that we maintain those two programs intact, and then try to improve upon them.

In summary, Mr. Chairman, wherever the subcommittee's deliberations wind up on the details of the self-help program, it is our hope that the new authorization of these programs would be predicated upon the guiding principle that 75 percent of the funds could be provided through grants and parental support, and that the other 25 percent would be reserved for the self-help through work and/or loans, so that every student would be responsible for providing some of his own resources to go to college.

We think that this is a fair and equitable division. Obviously, you could change the percentages a little bit, but that seems to us to be a fair division. We believe that the adoption of this basic policy in the reauthorizing legislation would, of and by itself, go a long way toward resolving the complexities and the uncertainties of current student aid programs.

Let me just in closing mention four quick reasons why this 25 percent component of self-help through work and/or loan seems to us to make good sense.

The individual student benefits from his education. He does not get all the benefits. Society gets some, too. But he gets much of it, therefore, he should be willing to bear part of the cost through his own self-help.

The American taxpayer, I don't think can, but certainly should not be asked to pay for all of it. We should not give a completely free ride to every student through grants.

Self-help builds character, self-reliance, and responsibility in the individual student. I would like to stress this point just a moment. In working out a financial aid program, you are doing far more than providing dollars. You are also influencing character. It is a very important group of people whose character you are influencing. These are the people who are going to be the leaders of our Nation tomorrow. If in the way you provide aid, you create people who are dependent rather than people who are self-reliant, 20 years from now it will have a major impact on our Nation for the bad.

So, we feel that maintaining a strong self-help components through loans and work is absolutely crucial, not simply for the money today, but for the character tomorrow.

Self-help provides the necessary choice factor for students who want to attend higher-priced institutions, and this also is important, to give variety and choice as well as access.

In short, self-help contributes to the qualities of citizenship which I think we all cherish. So I would urge the committee to strengthen this part of the financial aid legislation, and to help instill self-reliance and responsibility in tomorrow's leaders. Don't stifle the character building self-help by too lavish a flow of direct grants.

Money for aid is important, terribly important. But money does not solve all problems. The way the money is disposed may be as important as how much there is. Find a way to do it so that it increases the character of our students and their self-reliance, and not simply provide the funds. Thank you so much.

[The prepared statement of Mr. Weatherford follows:]

Statement of Willis D. Weatherford, President, Berea College, Representing the National Association of Independent Colleges and Universities

Mr. Chairman and Members of the Subcommittee:

My name is Willis Weatherford. I am President of Berea College, an independent liberal arts college in Kentucky with over 1,400 students enrolled, and also a member of the Board of Directors of the National Association of Independent Colleges and Universities. I am accompanied today by Peter Gossens, Director of Government Relations at NAICU.

I am pleased to appear before you today to discuss with you NAICU's recommendations for reauthorization of the "self-help" student assistance programs contained in the Higher Education Act.

The National Association of Independent Colleges and Universities includes within its membership about 800 independent colleges and universities, 43 state associations of independent colleges and universities, and 26 national, regional and special purpose associations of independent institutions across the nation. They reflect the partnership which the private and public institutions have in providing the diversity and variety of educational offerings required to meet the needs of America's pluralistic society.

In a process unique among educational associations, NAICU provides annual opportunities for the entire membership to address the public policy issues which are important to all of us, and to issue a comprehensive and detailed set of public policy statements which reflect our positions on those issues. For that reason, Mr. Chairman, the views I am presenting to you today are not representative of a small cadre of national representatives -- rather, they represent the positions developed and adopted by our entire institutional membership across the country.

Policy Framework for Self-Help Programs

Just over two weeks ago, NAICU's Board Chairman, George Rainsford, and Vice Chairman, Timothy Healy, appeared before you to describe our recommendations for reauthorization of student grant programs within a new federal policy framework. That proposal calls for the establishment of a federal policy goal in the legislation that every eligible student receive sufficient aid under the Basic Grant, Supplemental Educational Opportunity Grant, and State Student Incentive Grant programs so that the sum of these grant funds -- together with a reasonable parental contribution and institutional and state matching grants -- will amount to 75% of total student expenses.

The second part of that federal policy proposal, which I will discuss today, is the establishment of a student "self-help" expectation, after parental contributions and grant assistance, equivalent to the remaining 25% of student expenses, to be met through the College Work-Study, National Direct Student Loan, and Guaranteed Student Loan programs. We believe that this 25% goal complements the grant proposal by assuring that each student shoulders the responsibility for financing a reasonable portion of his or her postsecondary education.

Berea College has followed this "self-help" philosophy for 123 years. We seek our students from those who have substantial ability but would not be able to afford to pay the cost of education. All of our students are from low-income families and must work at least 10 hours a week, and many work more, for modest wages to help pay their room and board costs. Our students not only earn wages through this system, they also learn pride in a job well done, learn to show up on time, and learn valuable skills. In addition, they learn self-reliance, independence, and self-confidence. I believe they get far more from paid work than if their only source of support was a grant -- they get the money plus they learn firsthand the concepts and attitudes which have made America a great and innovative nation.

Work is the backbone of Berea College's character development and financial aid systems, just as hard work and determination have been the backbone of American ingenuity and prosperity. Remove the backbone of work from either system and both efficiency and character suffer.

Let me now turn to the specifics of our recommendations relating to the "self-help" programs -- CWS, NDSL, and GSL.

College Work-Study

The NAICU proposals for the College Work-Study program are designed to sustain and build upon the tremendous popularity and growth of this program over the last sixteen years. Its continuing appeal was demonstrated clearly last year, when the Middle Income Student Assistance Act (MISAA) established a "threshold" funding level for CWS at $500 million for fiscal year 1980, and we are proposing a gradual annual increase in the authorization level to $960 million by fiscal year 1987. If fully funded, that authorized level, taken together with the 20% matching funds provided by institutions and off-campus employers, would provide student earnings of at least $1.2 billion annually. This will permit students to learn through work as well as through books.

Along with that expansion of the authorized operating level, we suggest that the new legislation correct two administrative procedures established by the Office of Education which have a detrimental impact on full use of CWS funds.

-- The first proposal would require the Commissioner to make intrastate reallotments of unexpended CWS funds carried over from the preceding fiscal year by December 15th of the succeeding fiscal year. The legislation already contains such reallotment authority, and the Office of Education does make reallotments. However, these reallotments often are made too late in the academic year to be useful to institutions in meeting student needs, with the result that funds are left unexpended at the end of the year. A legislated December 15th deadline would assure timely reallotment of these funds, and reduce the unexpended fund balances which create the false impression that these funds are not needed.

-- The second proposal concerns a problem about which you already have heard with respect to the student grant programs -- namely, the counting of family home equity assets in determining parental contributions. Let me simply restate our concern that continued consideration of equity in the family home as a measure of a family's liquid assets and ability to pay may be having an adverse impact on the ability of middle-income students to qualify for all need-based student assistance, including work-study -- a goal we worked so hard to achieve last year. Our proposal would simply exclude all home equity assets from consideration in determining the expected contribution to a student's postsecondary education.

Mr. Chairman, there is another CWS issue being discussed in the higher education community about which I would like to comment. Some are advocating a change in the legislation to permit institutions to make CWS awards to students with no demonstrated need. The proposal would allow such non-need-based awards to be made only after all needy students at the institution are served. We are concerned about the potential harmful effects of such a change on the continued success and growth of the program, for two reasons. First, we are concerned that extending federal CWS funds to students with no need could adversely affect Congressional support for a program historically dedicated to serving needy students, and which, indeed, was framed originally as an integral part of the "war on poverty" legislation sixteen years ago. Secondly, we are concerned about the actual effects upon students with need at institutions which fully utilize their CWS fund allotments. If excess CWS funds at college "A" are used to support non-need student employment, then those funds will not be available for reallotment to college "B" to support students with documented unmet need. We applaud any student at any income level wanting to work for his own support, but the taxpayer should help pay only those wages needed to meet educational costs for those students with need. We know that the proposal stems in some measure from frustrations that arise when a student is arbitrarily forced to terminate work-study employment when his or her earnings, in combination with other need-based assistance, reach the limits of documented need. But that problem already has been alleviated considerably by the authorization for need-based student aid to exceed documented need by a factor of up to $200, and we believe it would be far better to expand that flexibility factor to a figure of $300 or $400, and further alleviate that problem, rather than responding to those frustrations by opening the door to a wholesale policy of extending CWS benefits to students without documented need.

Student Loan Programs

The other two parts of the three-pronged federal "self-help" effort -- NDSL and GSL -- are far more controversial, complex, and chaotic than the CWS program. Since 1965, problems arising under the GSL program have caused Congress to change the legislation many times. Delays related to implementation of new legislative provisions have compounded these problems, and the current situation with regard to regulations implementing the 1976 GSL amendments is a classic case of administrative miscreance. For the NDSL program, other problems have arisen, due in part to the fact that budgetary and legislative recommendations from the last three Presidents have sought zero funding for the program and/or repeal of the NDSL authorizing legislation. Recently, we have seen evidence of a nationwide press campaign to discredit the usefulness of NDSL to millions of students by raising the spectre of uncontrolled and growing default rates. There is no question, Mr. Chairman, that problems do exist under both programs, especially with respect to the issues of loan availability and less than adequate collection procedures by some banks, some colleges, and the government itself. However, the current debate ignores two basic facts: (1) The programs are working to assist millions of students (and their families), many of whom would not ordinarily have access to a bank loan, in pursuing postsecondary education; and (2) Fully 85% of the students who have received benefits under the NDSL and GSL programs and have completed their schooling are repaying their obligations, and are paying them in a timely fashion.

For these reasons, Mr. Chairman, NAICU has neither proposed nor supported any of the current legislative proposals which call for a major revamping of the current programs into either a monolithic or a totally-decentralized system of student loan deliveries and repayments. What we do propose is to extend the existing NDSL program through fiscal year 1987, and to extend the current GSL program without major changes so that (a) concentrated effort may be given to administrative improvements, (b) states and institutions may fully comprehend and adjust to the changes enacted in 1976, as well as the MISAA changes last year, and (c) the program may be allowed to prove or disprove its ultimate worth in fulfilling its original mission of making loan funds available to finance the needs of middle-income students which cannot be met through the other grant, work, and loan programs. Mr. Chairman, with your permission, I would like to offer for the record at this point an article from the New York Times of May 26, 1979, which demonstrates the anecdotal evidence just now beginning to appear of the effects of the MISAA loan changes which should be fully implemented and analyzed before large scale changes are made to the legislation.

Beyond these basic extensions of existing loan authorities to assure continuity of operations, the NAICU membership also has adopted a position statement calling for the enactment of legislation which supports a more comprehensive student loan strategy for the future, to assure (a) the availability of loans to meet all legitimate student expenses unfunded by grants and work,

(b) a vastly simplified system for delivering student loans, (c) a genuinely effective and systematic method of repayment of student loans to avert student default and bankruptcy, and (d) repayment patterns related in some manner to income.

On April 6, 1979, in an effort to stimulate full public discussion of the legislative options to achieve such a comprehensive strategy, the NAICU Government Relations Advisory Council sponsored a symposium on student loan financing options. Over seventy representatives from various segments of the higher education community, lending institutions, the Administration, and the Congress -- including members of your own staff, Mr. Chairman -- met to discuss and react to some of the more comprehensive loan financing proposals then pending before the Congress or in developmental stages.

Although the specific proposals discussed at the symposium varied widely in terms of delivery and repayment mechanisms, there appeared to be a consensus that such comprehensive legislation should provide: (1) a more reliable means of assuring loan availability to all students; (2) a more efficient set of collections mechanisms to reduce defaults; (3) more realistic limitations on the overall amount of loans for which students could qualify; (4) procedures to permit consolidation of loans taken under the several federal programs to simplify repayment procedures, reduce the overall monthly debt repayment burden, and (hopefully) reduce defaults; and (5) a concerted effort to reduce the administrative complexity of current programs.

It is our belief that all of these concerns, taken in the context of the position statement adopted by the NAICU membership, can be addressed without repealing the existing GSL and NDSL programs and attempting to reinvent the student loan wheel. Indeed, it is our belief that several of the existing myriad of student loan programs could and should be consolidated with the existing NDSL and GSL programs, and those programs, in turn, refined and modified over time to simplify delivery, administration, and collections.

But since a very large proportion of the two million students enrolled at independent colleges and universities rely upon loans obtained through the NDSL and/or GSL programs to finance a major share of their educational expenses, our starting point for consideration of refinements and modifications understandably must be a steady insistence that the continuity of these program operations not be disrupted in the effort to find new, better and more comprehensive solutions to the problems that plague these programs. Thus, our first priority in the student loan field is to make sure the existing NDSL and GSL programs are extended and secured to meet student needs in the immediate future, and our second priority is to locate those new and better ways to solve the availability and repayment problems in the next few years.

In an attempt at self-regulating with respect to NDSL defaults, NAICU has begun a rather extensive effort with each of our 43 state association executives to reduce the default rates at independent institutions during 1979-80. It is a two-step approach designed first to make sure that institutions accurately report their progress to date, and second, using the NACUBO publication, Student Loan Collection Procedures, to assist institutions in determining the specific areas of institutional practice which need attention to improve collections and reduce defaults.

Whatever may be the final result of the Subcommittee's deliberations on the details of these three major federal "self-help" programs, our hope is that the new authorizations of these programs will be predicated upon the guiding expectation that all students, enrolled at all different types of postsecondary institutions, will be responsible for financing one-fourth of their total expenses from "self-help" sources, and that the federal "self-help" programs will work effectively together in support of that basic policy framework. We believe the 75-25 division of responsibility between parental contributions and grant assistance, and student "self-help" efforts, is a fair and equitable division to be pursued as a matter of basic legislative policy, and we believe that adoption of this basic policy in the reauthorizing legislation would, of and by itself, go a long way toward resolving the complexities and uncertainties of current student aid program operations.

In closing, Mr. Chairman, let me restate our basic arguments for strengthening the "self-help" component in the legislation:

- -- The individual student benefits from his education and should be required to bear a reasonable part of the cost.
- -- The American taxpayer cannot and should not be asked to bear all the cost for the student's education.
- -- "Self-help" builds character, self-reliance, and responsibility for the individual student.
- -- "Self-help" provides the necessary choice factor to make the concept of access meaningful.

In short, "self-help" contributes to the qualities of citizenship which you and I both cherish. I urge the Subcommittee to strengthen this part of the financial aid authorizing legislation which helps to instill self-reliance and responsibility in tomorrow's leaders.

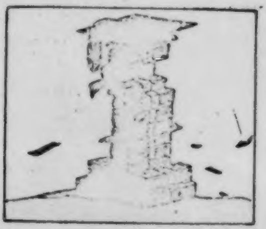
We are most grateful to you, Mr. Chairman, for this opportunity to present our views to the Subcommittee on the federal "self-help" programs and for your leadership in making postsecondary education available to so many American students in such a wide variety of educational institutions. We would be pleased to respond at this time to any questions which the Subcommittee may have for us.

THE [illegible] YORK TIMES
Saturday, May 26, 1979

Your Money

Alexander R. Hammer

Funding Costs Of College



Walter Gurbo

WITH the cost for a year at the nation's most expensive colleges and universities next fall expected to surpass $9,000, students will be searching harder than ever for ways to finance their education.

The painless method is to have wealthy parents who can easily afford the costs, which have more than doubled in the last decade. Even at the less costly private institutions, the bill for tuition, room, board and incidentals can run about $5,000 to $6,000. Less expensive are the community colleges, where fees can be as low as $1,500 for commuters and $3,000 for out-of-towners living on campus.

Happily, students without wealthy parents do have other alternatives. Government loan programs, which have had widely publicized default problems, are still around and are more popular than ever.

In an interview yesterday, Neil W. Benedict, vice president and director of the New York Loan Center at Citibank, the nation's largest maker of student loans, noted that so far this year, because of the increased cost of education and the lifting of family income restrictions, the "demand for student loans at the bank has risen more than 50 percent over the same period last year."

The Government loan programs, which come under the jurisdiction of the Department of Health, Education and Welfare, include the simplest but most expensive type, the Guaranteed Student Loan, which in New York is administered by the New York State Higher Education Services Corporation and offered through commercial and savings banks.

There are similar agencies in most of the nation. During the 1977-78 school year, almost one million students received Guaranteed Student Loans, with the average loan amounting to $1,675.

Under the Guaranteed Student Loan financing, undergraduates may borrow up to $2,500 a year, but not more than $7,500 in total, over a four-year period. Graduate students can borrow up to $5,000 yearly. The maximum a student can borrow is $15,000 over his undergraduate and graduate years.

These loans carry a bargain interest rate of 7 percent. The participating banks are paid additional interest, ranging from 4 to 5 percentage points, by the Federal Government. Repayment starts nine months after the student graduates or leaves school, with up to 10 years to pay, depending on the amount of the loan.

The Federal Government and the 40 participating state agencies promise to repay these loans if the student defaults. States are reimbursed by the Federal Government for 80 percent of repayments on defaulted loans.

Until last November, if a student's family had taxable income of more than $25,000 a year, the student was ineligible for the interest benefits of a Guaranteed Student Loan. Now, however, all students are eligible, no matter what their family income.

Another popular student aid program is the National Direct Student Loan, or N.D.S.L., which is administered through colleges and universities. Under this program, undergraduates may borrow up to $5,000 and graduate students up to $10,000. While the student is in school, no interest is charged on the loan. Once the student leaves school, repayment is required within 10 years, at 3 percent annual interest.

These direct loans were first established two decades ago as under the rubric of National Defense Student Loans. In the 1977-78 school year, some 850,000 students received such loans, averaging $710 apiece.

As the program's name indicates, students borrow directly from their schools. More than 3,400 institutions take part, and each establishes revolving-credit loan accounts, which are funded 90 percent by the Government and 10 percent by their own resources.

Both the Guaranteed Student Loans and the National Direct Loans have been plagued by exceptionally high default rates by students who would not or could not repay the borrowings. At the peak in May, 1978, more than 400,000 Federally insured student loans were in default, involving a total of approximately $430 million, or about 13 percent of all the loans granted. In fiscal 1975, the default rate was 9.7 percent.

Part of the problem, it is widely acknowledged, was too small a staff at the Bureau of Student Financial Assistance at H.E.W., which oversees the guaranteed loans. As of January a year ago, only 100 employees were assigned to try to collect on the loans.

In addition, H.E.W. was considered lax in sending bills to defaulting students, and the some banks often made little real effort themselves to collect their loans before turning them over to the state or Federal Government. Critics of the program have charged that, because of the guarantees, the banks have little incentive to push hard for collection.

The startling growth in defaults has forced colleges, banks and H.E.W. to toughen their approach to repayment, although participation by banks and colleges has nevertheless increased. The Government has hired more collecters, including private collection agencies, and a Federal law now prohibits bankruptcy proceedings by a student within five years of graduation.

Previously, a great many students who were in default declared bankruptcy soon after leaving school in order to avoid repayment of their loans.

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Mr. Benedict of Citibank, noting that the bank made more than 10,000 new student loans last year and that the total portfolio was now more than $100 million, said that defaults of student loans were at 6.3 percent in New York State, or well below the current national average of 10.5 percent."

One of the other student aid programs administered by H.E.W. is the Basic Educational Opportunity Grant for undergraduates enrolled on a full-time or half-time basis. Students receive outright grants, not loans, ranging from $226 to $1,800 a year, based on the difference between the cost of school and the amount the family can be expected to contribute.

Another is Supplemental Educational Opportunity Grants, which are based on need as determined by the college. These Federal grants range from $200 to $1,500 a year, but no more than $4,000 for a four year program. The funds are distributed to the schools, which in turn give the aid to needy students.

Mr. **Brademas**. Thank you very much, Mr. Weatherford. Indeed, let me thank all the members of the panel. I regret not having been able to be here for all of your statements.

It is good to see our old friend, Charlie Saunders back, and my old roommate in college, Jerry Gibson, who has been doing a fine job with COFHE.

In looking through your statement, I find such a variety and diversity of proposals and recommendations that it is almost as if this is where I came in, in respect to this legislation, about 20 years ago. I am not, now, going to try to put questions to each of you on your several comments, but I would like to ask two or three questions.

One of them is a fairly basic question, which I think is characterized in the consideration of the legislation, at least since I have been involved with it. I would be interested in any comments that any one may wish to make on it.

To what extent is there now cooperation on the part of the various kinds of institutions of higher learning in this country with respect to public policy, and in particular with respect to Federal policy in the field of higher education. If you want to zero in still more specifically in respect of Federal policy toward student financial aid.

Is my question a clear one? Do you speak to each other, or do you go your separate ways?

Mr. **Saunders**. Mr. Brademas, I simply say that I think all of us at this table, and many more in the room and in the community, have been engaged in a joint effort for the last year and a half trying to identify the issues and trying to work jointly to develop recommendations.

We do have a number of recommendations that we have all agreed on. There are some very sensitive, major policy issues where the different sectors have reached different conclusions. But I think we have not been working in isolation. We have been working with each other, and we are still working together trying to resolve some of the unresolved issues between us.

Mr. **Brademas**. I raise this question because one of the issues under consideration in this legislation has been very frustrating to members of this committee, and that is the hostility between the public sector and the independent sector.

My question really goes to the question of the effective with which that antagonism has been overcome, especially with respect to student aid policy.

Mr. **Gibson**. There is kind of a two-step process that we have gone through over a number of years. The first step is to have a group of like-minded schools explore among themselves what their particular needs are, and to try to set forth a kind of general pattern. For instance, the COFHE schools are going to see if they can, among themselves, agree on what the priorities are, and what changes ought to be made.

Then the second step is the kind of exploring with other groups of schools that have also gone through much of that same process, to see where are the differences and where the similarities lie.

There have been a number of similarities that have emerged, and hopefully if this kind of conservation continues, especially before Members of Congress, the real focal point of difference will be up for discussion, and for review among the various groups.

Mr. **Brademas**. Thank you.

Ms. **Hamilton**. I would like to comment that our differences are not really between the public and private sectors, but rather they are dependent upon the kinds of students we represent.

For instance, I find that the student body that my organization represents is very similar to that of Mr. Weatherford's institution, and we will have no problems relating. We have an older student-body, two-thirds of whom are about 30 years old or older, and most of them are part-time students. So the student aid programs affect our students in different ways, and that is where our division lies, not by the kind of institutional control.

Mr. **Weatherford**. There is a greater concern, not only for access, but also for tuition in some of the independent institutions, some of which, obviously, are higher priced, because the student is required to bear a greater portion of the actual cost of education.

Mr. **Brademas**. I think your points are well taken.

I wonder if I could ask another type of question.

You have testified here, some of you, that the effectiveness of the NDSL and GSL programs among the several States has been uneven, to say the least. I wonder if you could indicate why you think that that is so.

Mr. **Ihlanfeldt**. It is a question of access to capital. In some States, we have, I think, management objectives which are very clear and very committed to providing loan availability as well as loan certainty.

For example, the State of Minnesota is a direct lender. They are very much committed to the guaranteed student loan program. There are other States that are not committed, and you created, in 1976, initiatives and incentives to stimulate broader State participation.

I think the banking industry, or the financial industry, with the expansion of the special allowance and tying it to Treasury bills, has increased its participation rather substantially and they have done so for two reasons:

One, I think that within the context of the diversified portfolios, they believe they ought to be participating because there is some money to be made.

Two, they also recognize that it is a very good marketing technique over a period of time. I think that this is one of the reasons that we see such large banks, such as CitiBank, participating on a very extensive basis as compared to some banks in certain parts of the country, which do not even know the name of the program.

We have a marketing problem throughout the country, and I am not sure whose responsibility it is. I tend to think that the Office of Education, which is responsible for administering these programs, has responsibility for the marketing of the program. They think, apparently, that it is the institutions' responsibility to market the program, or the States' responsibility to market the program, or Sallie Mae's responsibility to market the program.

So, I think we have, by default, a diversified marketing kind of effort, but we don't really have any coordinated effort, and that is why we have a differentiation in terms of access.

Mr. **Brademas**. Let me just add one other question before calling on Mr. Buchanan.

Do you sense that we are doing better now in respect to collections and defaults in NDSL and GSL?

I note here that I have a compilation of statistics on the NDSL default rates, statistics compiled by the Office of Education on the basis of data submitted in October by the participating postsecondary institutions. As of June 30, 1978, the national default rate was 17.3 percent as distinguished from 16.86 percent on June 30, 1977.

It is interesting to look at the incidence of defaults as categorized by differing types of institutions, with the 2-year public institutions being nearly at the rate of 35 percent, while public universities are at 16 percent, and private universities are just below 15 percent. Actually, private universities are about 14 percent in this compilation.

I would ask unanimous consent that this chart be inserted at this point in the record, Mr. Chairman.

Mr. **Ford**. Without objection, it will be so inserted.

[The chart referred to above follows:]

NDSL DEFAULT RATE STATISTICS COMPILED BY OE

The Office of Education has compiled the National Direct Student Loan default rate data which was submitted in October by the post-secondary educational institutions which participate in the program. As of June 30, 1978, the national default rate was 17.37% as opposed to a 16.86% rate on June 30, 1977. The following charts analyze the data by default rate ranges, type and control of institution, and state.

Default Rate Range	Number of Institutions	Percentage of Institutions
0 - 10%	1,025	31.53%
11 - 20%	874	26.88%
21 - 30%	495	15.23%
31 - 40%	329	10.12%
41 - 50%	250	7.69%
51 - 60%	148	4.55%
61 - 70%	82	2.52%
71 - 80%	25	0.77%
81 - 90%	14	0.43%
91 - 100%	9	0.28%

Type and Control	Number of Students	Amount Outstanding on Loans in Default	Matured Principal	Default Rate
Public	504,995	$38[illegible],737,143	$2,150,883,155	17.93%
Universities	332,318	$292,901,539	$1,822,532,666	16.07%
Four-Year	45,150	$ 28,635,291	$ 140,324,568	20.40%
Two-Year	118,592	$ 58,515,548	$ 167,405,158	34.95%
Vo-Tech.	1,764	$ 1,031,276	$ 3,716,232	27.75%
Other	7,171	$ 4,653,489	$ 16,904,531	27.52%
Private	286,312	$281,459,341	$1,783,258,226	15.78%
Universities	125,651	$142,754,515	$1,007,880,356	14.16%
Four-Year	131,466	$119,279,608	$ 687,581,489	17.34%
Two-Year	21,552	$ 11,562,353	$ 43,351,232	26.67%
Other	7,643	$ 7,862,865	$ 44,445,149	17.69%
Proprietary	48,970	$ 34,419,484	$ 103,963,688	33.10%
Other	904	$ 926,862	$ 6,252,643	14.82%
All Institutions	841,181	$702,542,830	$4,044,357,712	17.37%

continued...

NDSL DEFAULT RATE STATISTICS (continued)

Alabama	18.00%
Alaska	30.38%
Arizona	19.25%
Arkansas	21.42%
California	21.02%
Colorado	15.00%
Connecticut	16.62%
Delaware	19.91%
District of Columbia	25.21%
Florida	23.47%
Georgia	22.12%
Hawaii	18.01%
Idaho	12.19%
Illinois	18.22%
Indiana	15.69%
Iowa	10.31%
Kansas	10.80%
Kentucky	14.65%
Louisiana	16.58%
Maine	11.16%
Maryland	20.16%
Massachusetts	15.91%
Michigan	19.81%
Minnesota	11.24%
Mississippi	24.10%
Missouri	14.07%
Montana	9.99%
Nebraska	10.02%
Nevada	18.66%
New Hampshire	14.21%
New Jersey	17.82%
New Mexico	19.07%
New York	18.52%
North Carolina	23.08%
North Dakota	4.60%
Ohio	18.69%
Oklahoma	15.95%
Oregon	14.16%
Pennsylvania	13.75%
Puerto Rico	20.69%
Rhode Island	16.60%
South Carolina	23.23%
South Dakota	8.88%
Tennessee	19.76%
Texas	21.56%
Utah	9.87%
Vermont	13.15%
Virginia	18.95%
Washington	13.13%
West Virginia	12.11%
Wisconsin	14.10%
Wyoming	6.51%
Guam	16.97%
Virgin Islands	59.30%

NDSL TEACHING SERVICE CANCELLATION LISTS PUBLISHED

On March 12, 1979, the Federal Register contained the list of schools determined to have a high concentration of students from low-income families for use in approving National Direct/Defense Student Loan cancellation benefits for the 1978-79 and 1979-80 school years.

Due to the length of the list (300+ pages), it will not be published as a Federal Monitor. It is our understanding that the Office of Education will mail the list to all institutions within the next few weeks. In addition, individual copies of the Federal Register are available at a charge of 75¢ for each issue. Remit check or money order, made payable to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. When ordering, please specify the issue as Monday, March 12, 1979, Part III (Book 2).

Mr. **Brademas**. I wonder if any of you have a comment to make on that problem, which, of course, has a great deal of public attention.

Dr. **Hamilton**. I have two major comments. First of all, I think it is important that the committee realize that the Office of Education uses two different ways of calculating defaults for the different programs. There is a separate way for NDSL and a separate way for GSL.

On the NDSL program, any delinquent account is considered a total default, whereas on the GSL program, any delinquent account is considered a delinquent account, and not in default, and that is why we have the difference in default rates between the GSL and NDSL programs.

Actually, if you really looked at the differences, if calculated the same way there would not be the differences.

Mr. **Brademas**. There would be a difference.

Dr. **Hamilton**. Calculated on the same basis, I doubt that there would be a discernible difference between the default rate in the NDSL program as compared to the default rate in the GSL program.

Mr. **Brademas**. That is not my question. I was not talking about the difference between GSL and NDSL. I was talking about the NDSL default rates as among various types of institutions.

Dr. **Hamilton**. To answer your question, in the public 2-year sector, we have many delinquent accounts, not necessarily many defaults. If you look at the money that the 2-year public sector owes compared to the other sectors, the percentage is much lower, probably the lowest money owed. It is just that we have many delinquent accounts as compared to defaults. It is a matter of the accounting, and that is my comment.

Mr. **Brademas**. I am still a little troubled because, in all candor, I do not find that your response answers my question, because you want to measure an orange by the rate with respect to apples.

We are talking solely about oranges, and I think that you will have to defend your case with respect to oranges.

Dr. **Hamilton**. There is no doubt that there is a high default rate measured on the grounds that OE uses to calculate that program.

Mr. **Brademas**. In respect to all kinds——

Dr. **Hamilton**. In respect to the number of students who have actually participated in the program. There are very few students in the 2-year sector who participate in the program. However, of those that do, as calculated this way, 35 percent of those students are delinquent.

I would argue, however, that we have probably the least professional staff of any sector in our student aid offices, and I think that there is a direct correlation between the lack of administrative management and the default rate.

Mr. **Weatherford**. Mr. Brademas, I can certainly attest from the standpoint of my own college that by working at it, you can bring that default rate down. We were at 12 percent 2 years ago, and we are down very close to 9 percent now, and we are planning on pushing it down considerably lower.

The independent colleges across the country, the NAICU group, has started kind of a two-step proposal through our 43-State associations to try to work at this two ways.

One is to get better reporting, so that each college knows where it stands, and second, to get education of the officers in each college that are handling this through the State associations, using a standards book that has been developed by the National Association of Business Officers on how to go about doing a more effective job of collecting.

So I think that we are going to get a handle on it, and it is partly because of the pressure from Washington that we are responding to, but it doesn't happen overnight. It has taken my school 2 years to get down from 12 to something under 10 percent.

Mr. GIBSON. If you will permit me just one quick historical look.

This program, as you know, goes back to 1958, and the Office of Education in its administration came along very slowly during those early years. I can remember in the late 1960's when we had a series of memorandums from the Office of Education detailing how we should administer the program. I can remember having Nos. 66, 67, 68, and they would all be in a kind of a pile. At one point, new schools coming into the program couldn't get the previous memorandums.

Eventually, it is true that we got a manual for the program. It was about 18 months ago that we got the regulations to spell out what to do, and what is going to be required under the program. The figures from which you quote are all reported before any school was allowed to submit the default of loans to the Office of Education and, therefore, wipe them off their books.

There is no financial institution that I know that is required to carry defaulted notes on its books for 20 years, and still report the default rate on the basis of the whole portfolio.

Mr. BRADEMAS. I think that your point is well taken. OE was almost as slow in urging enforcement of the rules and regulations in respect to collection of these loans as it has been coming up with its legislative recommendations on this particular point.

Thank you, Mr. Chairman.

Mr. SAUNDERS. If I could respond further to your question. I would say that I do not have an answer to it, and I don't imagine that we will have any kind of an answer until we have figures this fall comparable to those that we received last fall. Those figures about the NDSL default rate were very disturbing and challenging to all of us, and the only thing I can say is that an awful lot has happened since then within the community. We have all mounted a major effort to try to bring this to the attention to everyone.

The Office of Education has stepped up its training efforts with the National Association of Student Financial Aid Officers, which has made a major effort in this area as has the National Association of College and University Business Officers.

Commissioner Boyer, personally, has appeared before various education groups around the country to make this point. ACE had regional meetings this spring, at which the Commissioner and Leo Kornfeld appeared. The major point on our agenda was that we had to deal with this problem. I think the whole community has pitched in to call attention to it, but I don't think that anyone can say factually what has happened to deal with the problem compared to those figures that we had last fall.

Mr. **IHLANFELDT**. I do think the demographics of the borrower are changing, and we are finding that those students who are benefiting from their education are borrowing more, and I think are more likely to repay over time. Those students who are attending low-price institutions are not required to borrow as much because of the basic grant program. But for years, we operated in an environment where the attitude was one of looking at the loan almost as a grant. I think Congress, in 1958, was not too specific, when we look at the historical records, as to what the function of the loan program was in relationship to regulation and collection, and so forth.

Many institutions, I think, operated very poor origination practices and some continue to do so.

Mr. **BRADEMAS**. Thank you, Mr. Chairman.

Mr. **FORD**. I think that that is a very apt observation. My own recollection of consideration of old programs vis-a-vis other proposals in the enactment of the Higher Education Act of 1965 was that, had this committee been told that the repayment would have been 10 percent, we would have passed the program anyway. We would have accepted that as an unhappy, but nevertheless reasonable, trade off, because what we were really doing was trying to get money out there to pay for education, and politically you could not do it in the form of grants.

We were not yet ready, in the politics of this body, to accept grants to college students. As a matter of fact, in the early stages, loans were a device to get money out there and buy education. Unfortunately, we have people looking back at the program, and saying: "How could it be that you constructed a program that does not have 100 percent repayment?"

I have been in trouble a few times by suggesting that what surprises me about the program is not that we have a 13-percent default rate, but that 87 percent of the people pay the money back because nothing was ever done to collect it.

It is very clear to the committee, in the case of past hearings, that until about a year or a year and a half ago, no one, absolutely no one made any attempt from the Office of Education to collect the money, or assist anybody in collecting the money.

It is not surprising that the people at the institutional level did not expect that they were supposed to do what the regulations had not said they were supposed to do.

However, this still leaves the problem that John Brademas mentioned which is difficult for us to deal with when we are talking to people in this committee who are not quite as sympathetic with the original objective of buying education, even without repayment.

How do you explain the uneven performance of different kinds of institutions? Regardless of the scorekeeping system, there is a statistical difference between the default rate at 2-year institutions and 4-year institutions, and private and public. Why?

One might draw some conclusions with respect to a specific institution being bad, but why does the whole community and junior colleges group show up so badly on the default rate?

Dr. **Hamilton**. The only thing that I can think of that has any validity in my mind is that our students tend to be poorer risks than others that go to other institutions.

Mr. **Ford**. Why are students who are 90 percent-plus daily commuters a poorer risk than people who do not live any place close to the institution?

Dr. **Hamilton**. They may be in vocational programs; they may not complete their degree, and they may not be able to find employment. They may be of less academic ability and drop out. We are not talking about the kinds of students who can go anywhere to school.

I don't have an easy answer. I think that it is probably a combination of poor management, a lack of concern about the student aid programs, the feeling that any clerk can administer them. I also do think that you have to look at the kinds of students who go to community colleges.

We do have poorer students, sometimes with bilingual problems. Many cannot find employment.

Mr. **Ford**. Last year, the average age of your students was 30, and the average of your female students was 35. How do you stack that up against 17- or 18-year-old kids who do not know what borrowing money is?

Dr. **Hamilton**. I don't think that the older people would be the ones getting NDSL. I think the people who default would tend to be dependent students who are from low income families. I don't really think that we are talking about an average kind of student at a community college. Then, again, only about 5 percent of our students receive NDSL. I would tend to think that the majority of the recipients would be dependent students.

No one collects information on the kinds of students who default. But if one looks at how this program has changed over the years. Originally, NDSL was a program for poor people.

Mr. **Ford**. If you will pardon me, I am not willing to believe that it is the kind of students that default. I believe that it is the kind of institution and the kind of institutional responsibility that leads to the default rate. I don't think that there is that much difference between kids from poor backgrounds and kids from middle-class backgrounds in terms of meeting their responsibility.

As a matter of fact, I have a tendency to believe that kids from poor backgrounds do a little better than the affluent kids when it comes to meeting individual responsibility.

You are suggesting that the excuse is that there is a different kind of student body at these institutions. What I think is very clear, in either case, is that there is a different attitude by these institutions with respect to administering these programs. Perhaps, community and junior colleges have not matured to the point where we should trust them to run these programs.

Dr. **Hamilton**. Perhaps, I agree. Perhaps, they should not be eligible. We have a lot of low-income and middle-income students, and perhaps I agree with you, they should not be in the program. I think that most of our presidents are getting out of NDSL. Low-income students should be given grants and work, not loans.

I was not really arguing a different point in that, if you look at the NDSL program, the ones who are paying back their loans are higher income students, because they are the recipients at other institutions.

I disagree that one's ability to pay is not in some degree dependent upon one's ability to find employment, whether one is black or white, or whatever. I don't think that that is totally the problem, however. I agree with you, I do think that we have poor management in community colleges. It is a terrible situation.

Mr. Saunders talked about the massive attempts to lower default rates. We applaud them. But there are very few community colleges that belong to these associations because they have no travel money to go to training programs to learn how to lower the default rate.

We are trying very much at our association to help our members, but some presidents think that just because there is a relatively low tuition, there are no costs to a student, and there are. Transportation costs, child care, and everything else.

Mr. IHLANFELDT. Looking at it as a member of higher education, there is a very high correlation between length of time one spends in higher education and the default rate. If you are only in school for 6 months or a year, and you are borrowing, you are more likely to default than someone who has been in school for 3 or 4 years.

Even at our institution, where our default rate has been as low as 1 percent and as high as 4 percent in the NDSL program, when we look at the demographics, the people who default are the people who dropped out after 1 year or 2 years at Northwestern.

Mr. FORD. As you know, we have had some difficulty with this administration and the preceding administration in trying to justify the capital investment, which has been sort of level funded. I am looking at the figures now. We have 339 institutions in revolving status at the present time, and this is 15 years after we thought that everybody would be in revolving status in a short time.

At the present rate, if you project only a 6-percent increase in student costs, and at the same time a 10-percent increase in the rate of collection, an improvement in collection, a very modest factor of 4 percent for increased costs, at the end of this year you will pick up 23 more institutions, next year, 38 more, and the next year 40. By the year 1982, we will still be some place around 500, I guess, and six times that many institutions are not likely to make it.

So the idea of this becoming a revolving fund, I think, has to be abandoned. I suppose that this is probably why the administration's proposal is still out in limbo some place, for a new loan to replace this. We are sort of kidding the Congress, and everybody else, when we say: "Fund us 1 more year, and then 1 more year, and then we will take care of it."

It is obvious at this point that, after 15 years, this is never going to become a truly revolving fund that is going to sustain itself.

Mr. IHLANFELDT. We suggest in our testimony that it should not need to be funded for longer than another year or two, and it should only serve as a base to expand the guaranteed student loan program, utilizing Sallie Mae as the capital source.

Mr. FORD. What could we do, if we can retain the present program, rather than set up an institution, recognizing the need to

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recapture those funds that would be available for other people to borrow?

Mr. GIBSON. I think we are as concerned as you are about the management capability of many different types of institutions to administer the loan programs, and that is one of the reasons that we have suggested that Sallie Mae be a kind of supervisor of loan servicing agencies that are not professional agencies. We do not need all the vagaries that the different agencies trying to administer the same programs might experience. We should try to make the collection a professional effort, rather than relying upon all institutions to make collections for their own loans.

Mr. SAUNDERS. Mr. Chairman, I would like to say that the Office of Education has already imposed some pretty strong incentives to get the institutions to collect those loans. They are penalizing and reducing the capital contribution of institutions which have not made a sufficient effort.

I believe that something on the order of $90 million was withdrawn from institutions during the current year, and redistributed to other institutions, because they had not met the Office of Education requirements. I think that those are pretty strong requirements that are in place for the first time this year.

Mr. FORD. We have found that there has been up until now no incentive. If you turn the paper over to the Office of Education, and they do collect, the money goes back to the U.S. Treasury. It does not go into the revolving fund. It does not go back to the institution. It means that you lose the contribution and the institution's contribution.

The Office of Education in the past year asked the institutions if they would like to turn their old paper over to them for collection, and they discovered that in many States you cannot do this. The State institutions are barred from an actual financial transaction which would forgive, send away, or give up the 10-percent State contribution.

So what we are contemplating is authorizing the Commissioner to become an agent for the institution, to collect on the institution's behalf. I presume that they will charge them a percentage and take their piece out of what they get.

The experience in the last year seems to indicate that with relatively little direct effort, because of the size and the numbers that they can deal with at the national level, the Office of Education has collected a lot of money. They have not had to file law suits, or shake people up. After receiving the first communication in many years, they started paying their loan.

Let's hope that this will give us some idea of what happens with the collection of debt. The administration is proposing, as a special treatment of this loan program, that the institutions make the loan. We still don't know what kind of payback conditions they are talking about and what kind of interest rates. As soon as the loan has been processed, the institution will turn the paper over to a Federal agency such as Sallie Mae, which then proceeds to service the loan and assume its responsibility for the repayment thereafter.

It is apparent that there are a number of persons who do not like the idea of having this happen. They can't make any money out of

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the student loan business, but they don't like the idea of getting out of the student loan business. Sallie Mae is nervous about what would happen to them in this process. The State agencies, in the States that do have agencies, are upset because they say that they have gone into the business in good faith, and now we are going to put them out of it.

How do you react to having the institutions give up their loan servicing business to a centralized Federal agency?

Mr. **IHLANFELDT**. We specifically recommend that in our testimony. As a former servicer, when I first had the opportunity to look at that Sallie Mae manual as to what was required, I was overwhelmed and somewhat shocked. But now it has been imposed upon the industry, if you want to utilize that secondary market.

I think by utilizing their capability and having them designate who is going to service the loans, we are going to have much better quality control. There may be some educational institutions who can meet that management objective, but I think that there will be very, very few of them.

Mr. **WEATHERFORD**. Mr. Chairman, as an association, I think that we would like to look at the details of that a little bit more, and reply for the record.

I would have one point. Certainly, the Federal collection as, at least, a backup collection, can add some teeth that maybe the individual institution cannot. However, at the beginning of the process, I would suggest that many colleges have a much more personal relationship with their alumni than the Federal Government does, and it may be good to hold that sort of a big stick down the road for recalcitrant account. But I think that with our alumni, we have a lot better association than anybody in Washington does, and we would get a much better response than you would. However, we would like to have Washington to back us up somewhere down the road.

Mr. **GIBSON**. I think I would like to make sure that we draw a distinction between having some kind of a Federal agency do the collection, which makes me very nervous when you talk about the Federal being sort of the first on-line agency doing anything, especially something that is as complicated and has that many participants. That makes me very nervous.

I think probably what you are talking about, and I hope what we are talking about, is the fact that there would be some kind of a central agency that would be a supervisoı, and would say: Here are the standards that you must meet in order to do professional servicing of student loans. If you are a bank and you meet these, you may do it. If you are a school and you meet these, you may do it. If it is some kind of outside professional organization that does loan servicing, you may do it. The standards are set forth centrally, but the work should not be done centrally.

Mr. **FORD**. I don't think that this is what they have in mind. What they have in mind is, in fact, the institution handling the loans only up to the point where the check is delivered, and then turning the paper over to a central agency, which thereafter services the loan.

Mr. **GIBSON**. If that is the case, then it does really make me nervous. I think that the Federal Government does exactly the thing that Mr. Weatherford suggested it would do best, and that is to serve as a backup at the end of the system, but not to be the first one that has all the responsibility. This is true whether it be the Internal Revenue Service, the Secretary of the Treasury as suggested in the Maguire bill, or some kind of a central servicing agency under the proposal that you are describing.

We need to let the system operate as best it can with standards, as long as we can, and then bring in some kind of a Federal operation at the end.

Mr. **Weatherford**. You are simply transferring much of the cost of collection from independent and public institutions to the Federal Government. I don't know whether anyone has figured out how much it would take to do the collection, but it would surely be a lot.

Mr. **Ford**. Maybe somebody in OMB has done it, and that is why they are not releasing the legislation. The administration's proposals, as we understand it, have been kidnaped and are being held hostage at OMB while they try to negotiate some kind of release.

Mr. Buchanan?

Mr. **Buchanan**. Thank you, Mr. Chairman.

First of all, Dr. Weatherford, I just have to say how much I identify with the thrust of your testimony. It may be a personal bias because my father was so imbued with that philosophy that I not only had to pay for every day of education I received beyond the secondary level, but I had to earn every penny of spending money I ever had. I can't help but identify.

Second, I would like to thank the panel for coming back. John Brademas and Bill Ford are accustomed to that, but I often feel like a novice juggler walking a tightrope with the flies buzzing around his nose, trying to figure out what the Federal Office of Education can and should be doing.

You have given us some good insights. I think that you have made same very provocative proposals, very good proposals.

Which of the following agencies should: (a) Originate loans; (b) collect loans: banks and other lending institutions; State guarantee agencies; Sallie Mae; the Office of Education; or a national student loan body?

Of those entities, which can better originate loans, and which can better collect?

Mr. **Gibson**. Let me be bold enough to lead off. It seems that the place where the financial aid resources are being put together in some kind of a package, where the explanations are made to the student and the family as to what the various options might be, is all happening in the financial aid office of the school.

It is certainly true that the basic grant program offers a kind of reassurance to people that there are funds out there, and that you can come and obtain this award, and go somewhere to school. When you sit down and talk about the budget, and what the family is expected to do, what your options are between work and borrowing, and all of these things, it is all happening in the financial aid office.

It seems to me that there may be supplements that are necessary, but the financial aid office is the primary place where the loan ought to be originated.

Mr. **Saunders**. The answer might depend on whether you are talking of a loan of convenience.

Mr. **Gibson**. It is a loan of need.

Mr. **Weatherford**. I concur that where you make the conditions of the loan to begin with is the best place, and that would be either the institution or the bank. I notice that you left the institution out.

Mr. **Buchanan**. I did not mean to.

Mr. **Weatherford**. I am pleased that you didn't.

I think that it does require setting up some standards that we have lacked up until fairly recently, and some of the standards need to be defined so that we will know what we are working with.

Mr. **Buchanan**. Anybody else?

Mr. **Ihlanfeldt**. I certainly don't feel that State agencies, per se, should be the ones. I think that it necessitates a close relationship between the borrower and the lender, and I think that that is sort of a basic principle. It may be a financial institution, or it may be an educational institution. It may be some kind of outreach office of the State. But the more there is a distance between the lender and the borrower, the more likely you are going to have an increase in the default rate.

Mr. **Buchanan**. What about in terms of collecting?

Mr. **Ihlanfeldt**. In terms of collecting, I will come back to what we originally said, and that is that the standard of performance has to be set, and only those agencies or institutions that meet that standard of performance could, in fact, be the collectors.

I would see, under both a loan of convenience or a parent loan program and the student based program, the vast majority of the collection being done by financial institutions and by designees of Sallie Mae or the Office of Education.

Mr. **Weatherford**. Mr. Buchanan, I almost hesitate to give this illustration but before the Federal Government got into the loan business, we had almost 100 percent payback, or just 1 percent default. Most of those were people who had been around for a year, or something like that.

However, when the Government got into lending, somehow or other the feeling got around that these really are part loans or part grants, and that had kind of a sad effect on the colleges. So our default rate just about tripled just by their not being able to distinguish which was which.

I think that if you can keep down to a personal level, where there is a personal tie, particularly if we could get these national standards set.

Mr. **Buchanan**. On the subject of default, what would be the difference between the high default rate and high initial monthly payments, or do you see a relationship?

Mr. **Ihlanfeldt**. Until now there has not been a relationship, partly because the average loan has been rather small. There have been studies done on the demographics of those students who tend to default; to a great extent they have not borrowed very much money and they have not been in school very long.

I think that during a period of time when the number of average loan users is rising significantly, we are going to have large numbers of borrowers with $15,000 or $20,000, or $25,000 worth of debt.

For that reason we think that a graduated repayment schedule at the borrower's option, and not the lender's option, would be very useful.

Mr. **Buchanan**. If you are repaying a loan over a 10-year period, should there be a maximum number of years in which the student could repay? For example, what would be the implications for the students, the lending agencies, and the Federal Government if you wanted to repay over a period beyond 15 years? Do you have any thought on that?

Mr. **Ihlanfeldt**. I don't want to dominate the discussion, but my thinking on that is that parents ought to repay their educational loans before their children enter college, just as a guideline, and that would be a maximum of 20 years under any loan system.

Mr. **Buchanan**. Does anyone else have a thought?

Mr. **Weatherford**. NAICU has been on record, Mr. Buchanan, not with a specific proposal, but with a proposal that would have repayment patterns that are related in some way to income, and certainly on a longer term. Those with very low incomes would probably have to have a longer repayment cycle than those with higher income. I am not sure of the repayment cycle, it might be a variable length of time.

We would favor that kind of a loan program that would have repayment related to income.

Mr. **Saunders**. There is a question that only the banking community can answer as to whether the extension of the repayment period is going to reduce the willingness of the banks to loan money. I simply do not have a judgment on that, but that is a question we raised.

Mr. **Buchanan**. If we allow consolidation, what agency should provide consolidation?

Mr. **Gibson**. I think that it will have to be a secondary market, Sallie Mae, or some version of Sallie Mae, that could buy the notes, in this case the NDSL money, the short-term money. The school could make more loans as soon as present loan notes were sold.

Mr. **Ihlanfeldt**. I think it is going to be very difficult, Congressman Buchanan, to consolidate past loans. To consolidate or develop a single loan system which consolidates some of the virtues of the various programs in the future, I think, could easily be achieved.

The administrative machinations that would be required to consolidate nine different loan programs at this point in time would be, I think, an administrative nightmare.

Mr. **Buchanan**. What about the State agencies?

Mr. **Gibson**. I think, first of all, there are a number of them that are in the process of developing their own secondary markets. I think that they could be a conduit for Student Loan Marketing Association. They could package large volumes of loans through the various educational institutions in their State, and move them on to Sallie Mae.

I think in that way they are very much a natural part of this formula, of this equation. I think, also, they can generate their own capital, through the issuance of revenue bonds. What I am trying to support, I guess, is a rather diverse delivery system involving the States, and involving the current participants.

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Mr. **Buchanan**. I was thinking about the individual student loans, who should do that?

If we said, "OK, let's go with consolidation," having one loan program, but permitting consolidation for repayment purposes. Now, I have graduated, and I have these various loans. Who should have the responsibility of consolidation?

Mr. **Ihlanfeldt**. It would have to be a third party beyond the educational institution. Therefore, the State or Sallie Mae, could provide that function.

Mr. **Buchanan**. I was wondering if the State agency would be a logical entity to do that.

Mr. **Ford**. If you would yield to me.

Mr. **Buchanan**. Certainly.

Mr. **Ford**. There are about a dozen States that in some instance do not have one State agency, but they have two State agencies, and they separate the functions at the State level, where they have chosen to be direct lenders. Is that correct?

Why have they apparently done this consistently, if there is not some common reason?

Mr. **Ihlanfeldt**. You mean the servicing function versus the allocation function?

Mr. **Ford**. Where the lender is not the agency that supervises the loan thereafter in the 12 States that have direct lending agencies?

Mr. **Ihlanfeldt**. I think administratively it makes a lot of sense in terms of your budget appropriations. You can develop better accountability if you know what your costs are in relationship to servicing versus what your costs are in relationship to the administration of the origination practice itself.

The allocation of loans may ultimately, in most States, eventually depend on the same agency. I think that it is more for administrative efficiency than anything else, and general fund accountability.

Mr. **Buchanan**. I have 500 questions for which I might receive 500 answers. So let me yield back for a moment.

Mr. **Ford**. I am looking here at a historical chart of NDSL. In 1970, the average GSL was $911. In 1978, it is $1,910, approximately a 100-percent increase in the period when the cost of tuition went up by 57 percent. The national figure is 60 percent. So, the student loans are increasing at a larger rate than tuition.

It tells us that we have to be more realistic, and take into account that it costs more to live as a student. One of the problems that faces the loan program, it is like the bartender trying to pour beer in a glass and trying to put a nice head on it, without having it pour over the edge of the glass.

How much is enough of a loan? We have a lot of people suggesting to us that the present limitations on borrowing are too stringent, and they suggest that we raise the amount of indebtedness and relax the requirements by stretching out the payments.

Do you have any suggestions as to how you would provide some relief?

We are going to be faced with what will come down to a political decision on this committee, some sort of a compromise which will not satisfy everyone, as to how much indebtedness is enough, and when do we reach the point where it is too much.

Some of us are very worried that if, in fact, we were to make student loans available to everyone in unlimited amounts, the institutions and the States would very quickly learn how to steal that money from the kids. There is no question in my mind that this is what will happen if we give them, in effect, a blank check to borrow all the money they want.

By the same token, it is very clear that the limitations we now have are unrealistic, in today's market, for some people trying to complete their education. We had the limit before, and they were able to complete their education.

What kind of suggestions do you have for us with respect to how much is enough in terms of the amount of money that we should be lending per year, and the total to students?

Mr. GIBSON. It seems to me, in part, the answer to that question depends on the environment in which the decision is made. What is happening now, as I am sure you know, is that in the higher cost schools, there are many parents who are borrowing through their children in order to pay part of the college costs. One of the things that we have tried to encourage is the possibility of being able to lend to parents directly, so that we are, in fact, able to control the amount of debt that the students have, and at the same time to give parents an avenue for sharing in some of that support. It would also discourage them from borrowing through students.

There are some private institutions, as I am sure you also know, that have initiated their own parent loan plans, which attempt to address the liquidity problems, which are operated at more or less market rates. The effect of this is to begin to reduce the amount of student borrowings, simply because the parents no longer have the incentive to borrow through the students.

Mr. FORD. It is interesting that for years we have heard people talk about the fact that you ought to be able to get cosigners on student loans. But until now, mentioning the prospect, at least until the administration started talking about this, of a guaranteed loan for parents was hair raising around here.

Why not lend the money directly to the parents? They commit themselves and the loans become collectible, if in fact that is the real purpose of the loan. We have not been able to face that, and we have looked for ways to get around that. This is part of what the administration's loan program is talking about. They would have a certain part of the loan package that would be similar to the real cost of money, not very much in the way of interest subsidy, that would be available for parents to meet, during the period when they had children in college, their cash flow problems and pay it back on some reasonable basis.

It is what many parents are doing, going to outside resources to borrow.

Mr. WEATHERFORD. Mr. Chairman, if you went to the policy position that NAICU has taken that about three-quarters of the cost of education should be provided through the various grant programs and parental contributions and then one-quarter should be related to self-help, you could, thereby, come up with 25 percent of the cost of that individual's education as a capstone. At least that much ought to be available through loans.

Now, that would be more for a student who went through 8 years and it would be less if one stopped at 4 years. It would be less for those who went to low-cost institutions, but that does vary by individual. It is not a set amount. At least, where we have looked at it, where we ought to expect students to have self-help through work or loan of 25 percent of the cost of their education, that would give you sort of a target of the amount, but it would be a flexible target depending on the student.

Mr. FORD. There is one thing that never gets talked about here. Undoubtedly, in private enterprise there is some incentive for accelerating the repayment. You get something for it. You get some sort of a discount. What would be the prospect of providing some kind of discount for people who immediately began to repay, instead of exercising the delay of 9 months after school; or for people who pay off at accelerated rates?

What kind of incentives could we offer to get this money back in, whether we run the program through the institution or through some Federal agency?

Mr. GIBSON. A suggestion has been made that we address each loan in terms of its administrative costs as kind of an average cost that can be projected out, assuming the loan runs its term. If it is paid off after 5 years rather than 10 years, you have 5 years of administrative costs that have been saved. You could use that as an incentive to make the earlier payment.

This would be more important for the smaller loans than the larger loans because percentage-wise it could make more difference.

Mr. IHLANFELDT. I am skeptical that there are any incentives that would affect the successful borrower, that is the person who goes out and does quite well, because the longer he holds on to that cheap money, whatever rate it is in terms of the present value of that dollar, the better for him. It does not make economic sense for him to pay it off early.

Mr. FORD. Under the present circumstances, there is absolutely no incentive, so we don't really know the difference between those who are successful borrowers and those who are unsuccessful borrowers. We don't know how much money comes back with pain, or how much money comes in easily.

Mr. IHLANFELDT. My concern is that it may not be to the Government's best interest.

Mr. SAUNDERS. Or whether it is desirable to raise interest rates for the program as a whole.

Mr. BUCHANAN. Mr. Saunders, you mention on page 9 of your testimony that many programs tend to serve all students. The minimum percentage of the loans for certain groups is probably required. Do you have any percentages in mind?

Mr. SAUNDERS. No. We are just raising the question that all the proposals that attempt to solve the whole problem are limited by a finite amount of capital that is available. So it seems to me that, if you are building any kind of a program like this, you have to recognize that flaw.

If there are not going to be sufficient funds available, there ought to be some priorities established to see who gets the loans first. That is the only point that I am making.

Mr. **Buchanan**. This is exactly what I was talking about before, when I talked about walking a tightrope. How do you devise a program so that you are not subsidizing financing State money, helping institutions pay high faculty salaries, or something?

How do you have an adequate loan program without hurting the grant program? Those are really tough questions.

Mr. **Ihlanfeldt**. I don't have an answer to that, but I do have an answer to the concern that you have expressed, and others have expressed, about the impact on student aid programs with regard to the price of higher education.

In other words, to what extent are the Federal programs producing increases in prices? In looking at the price increases in the independent sector from 1974 to 1975, and to 1975 to 1979, if we look at it in constant dollars, the increase is 4 percent. If we discount the inflation factor, we have an increase of 4 percent in the independent sector, so there has not been a dramatic increase in prices at a time when we have had a massive infusion of Federal dollars.

Mr. **Ford**. You say that after you raised the tuition at Northwestern 50 percent in 1 year?

Mr. **Ihlanfeldt**. I am talking about the average, Mr. Chairman.

We defend our decision there in terms of their ability to repay their obligations.

Mr. **Ford**. The tuition has gone up, both public and private, and there is only a 2-percent difference between public and private. Then, they single out your institution as the champion, in 1 year your jumped your tuition by 50 percent.

We have supplied the dental students with a fistful of money.

Mr. **Ihlanfeldt**. If I could address that question. At the time that we increased the tuition quite dramatically, we also set a debt ceiling and we set the debt ceiling at $25,000. The ceiling is at $22,000 increasing by $500 for each new class that enters. Once that student reaches that debt ceiling, he receives grant assistance. Tuition is only significant for about 10 or 5 percent of the applicant pool. All others tend to qualify eventually for a maximum debt ceiling of $25,000. So far we have not had to take advantage of HEAL.

We hope that through changes in this legislation, it will become part of antiquity. I think that tuition is somewhat irrelevant if, in fact, you have reasonable loan programs, and reasonable grant programs to meet those needs that are so demonstrated.

Mr. **Buchanan**. It is sort of a Robin Hood?

Mr. **Ihlanfeldt**. The whole concept of redistributon of institutional aid, the pricing factor is based upon the Robin Hood concept.

Mr. **Ford**. We are getting reports, since we passed the Middle-Income Student Assistance Act, that State legislative committees and State agency committees and Governors are having their fiscal agencies figure out how to get that money. That is not how they are saying it, but that is what it comes down to.

We have all these millions of additonal dollars coming into our State for student assistance, obviously we ought to be able to slacken down our own effort. We have not been able to devise a way to prevent institutions from capturing the money through increased tuition, or legislatures, in the case of public education, dictating that the institution will capture more money in tuition.

The temptation seems to be almost irresistible at the State level and the institutional level to find some way to let off pressure of constraining salaries, and all the other things that institutions have been doing. Obviously, if you look over the last several years, tuition rates in both public and private institutions have not kept pace with the cost of living.

Some place else in the system, the institutions have managed to keep competitive increases at 7 percent a year, except for some of the public institutions where it gets up to 12, but that is because it is coming from virtually nothing.

When you look at the track record for institutions of all kinds over the last decade as compared to anything else in this society, they really have held tuition. As John indicated, we are getting very nervous now about pulling the cork off the bottle, and becoming responsible in the way in which we design the programs for unleashing the furies out there with people who say, "We have spent a lot of money to start with."

I am fearful that the experience that we are having already is an indicator that putting more money into student assistance doesn't mean that we are buying more education. It just means that we are going to pay more for the education that we are now buying. We don't know how to deal with that. It is becoming difficult to judge just how liberal loans should be.

Politically, loans are the easiest thing to sell, along with work study, because it sounds like you can go to the system borrow money and pay it back. It is better than grants. But the Office of Education now tells us that it costs $700 to make a $1,000 loan. That does not satisfy many people who are worried about the Yankee ingenuity. That is $700 worth of cost for a $1,000 loan under GSL, and that is not a very good return on our money. Many taxpayers, I am sure, would not like that.

We are not dealing with a finite amount of money, where we could shift the $400 million from NDSL to grants, because we wouldn't get the $400 million additional for grants. With very little effort, we are able to keep refurbishing in spite of administrative recommendations to the contrary, because it is just politically easier to get money to lend to somebody to go to school than to give someone a grant.

The minute that you talk about grants, everybody is afraid that the wrong people are going to get them. No one seems to be afraid that the wrong people are going to borrow money because they operate under the assumption that this creates an obligation that that money will be repaid in time, and we are dealing with something less in terms of taxpayers' expenditures.

OMB is chomping at the bit over there. They have all these outstanding loan balances put on line in the budget, and if they do that, when we go up there next year to get our money for education, it will all be spent. The whole budget will be gone already.

We have a lot of pressure on that finite pool of money that we are dealing with, and the whole concept of using loans remains to some of us very attractive because the only possibility we have for expansion is loans, really. It is a political possibility. However at the same time, not very many of us believe that it is where we ought to be expanding our efforts.

You are talking about 25 percent in loans. The point of the matter is that we have young people coming out of school, even at the present levels, with a level of indebtedness, when compared to the kind of career possibility they are going to have, they have virtually no choice about what they are going to do with their education. If they feel the responsibility that they have to repay it, they take employment on the basis that they will have the ability to make enough money to permit the repayment.

All this talk about young people having an opportunity to go into public service, and so on, becomes pretty hollow if you first bind them into repaying that loan for a good many years, until their youthful enthusiasm and idealism has worn out just about the same time that they have paid off the loans.

Mr. **WEATHERFORD**. That is another place where the income related repayment would help to meet that problem.

Mr. **FORD**. It was mentioned here, I think by Mr. Ihlanfeldt, that if there was that kind of an option, it should be the borrower's option. In what time would you have him exercise that?

Mr. **IHLANFELDT**. First of all, I was talking about graduated repayment in contrast to income contingency. We have offered a modest income contingent program at the university that students could adopt. It is very complex and very hard to administer, and for that reason we think that the graduated repayment set at a specific time by the borrower is much easier administratively to manage, and we are looking for simplicity along with ease of repayment.

To emphasize the borrower's option, the current legislation permits graduated repayment, but most lenders will not permit it. Unless you turn it around, to permit the borrower to opt for it, it is never going to become operational because it is the repayment system that everybody is used to working with which tends to predominate the decisionmaking process.

Mr. **GIBSON**. We give that student the option for graduated repayment, but we ask to postpone the decision about that until the end of the grace period, when presumably they have found a job, and they know what their income is, and they can make a reasonable choice about what level they can afford. It doesn't make much sense to do that at the point of graduation when employment prospects are uncertain, as many of them are.

Mr. **IHLANFELDT**. Mr. Chairman, you have commented a number of times on what the borrowing limits ought to be. Right now the limits are around $35,000 and $40,000 for certain students, who opt for various areas. What we are doing is piggybacking loan on the top of loan program.

If we are to consolidate and have a single loan program with diversified participants, then we have to consider what the current students can borrow in the current environment. To come in with any less than that is going to prohibit educational choices at the upper level. I am speaking now in terms of the professional schools particularly.

I think that if we continue to operate at the graduate level with a program such as HEAL, where the interest accrues and compounds during the in-school period as well as the repayment period, we are going to find that there is going to be what they call adverse selection.

Students from low-income households, disadvantaged students, minority students, who probably represent the largest number of those who come from low-income backgrounds entering higher education, are not going to opt for those methods of financing our education. It is going to limit their chances in post-baccalaureate education.

We think that one of the scary things about the program we have in the dental-medical school currently is that we have to work twice as hard to recruit minorities. Among minorities, particularly blacks, there are fewer that entered medical school 2 years ago than there were 4 years prior to that.

So the price component on that price is really critical. I think that it is very difficult to sit down with a low-income student, and say: "If you borrow $30,000, your repayment is going to be $130,000." It is totally out of their realm to be able to grasp the ramifications of that. I don't think that it is the kind of thing that ought to emanate from this committee.

Mr. **Ford**. Mr. Buchanan?

Mr. **Buchanan**. Thank you, Mr. Chairman.

Mr. Chairman, you mentioned a moment ago the problem of the limited resources and the NDSL loan program, and so forth, our having to rely on a loan program to a greater degree than we would like to, and the problems that this poses for students in entering any kind of a low-income public service job.

We do have currently the form of loan payment for VISTA, and the Peace Corps, service and nonservice. Do you think that we should expand that to a greater variety of social service, and public-type activities?

Mr. **Gibson**. There are a number of forebearance possibilities in the present administration of the loan programs. It seems to me that if we work in any direction, it should be toward flexibility in that area. It is very hard to set single standards that apply to everyone, because for any one borrower it may be inappropriate.

My inclination is that, if we are able to work for a higher professional standard among people who are actually doing the servicing, we ought to describe to them with somewhat greater care what kind of forbearance we would expect them to be able to administer. Presumably we, as would bankers, would like to get some kind of a payment rather than no payment, and we could negotiate with the borrower to see if we can work out some kind of an agreeable schedule.

Mr. **Buchanan**. Does anyone else have a comment on that?

Mr. **Weatherford**. It is a good direction. Certainly in our area, those who practice rural medicine, if they could have some easier method of repayment, it would be extremely helpful in the distribution of physicians and medical services.

Mr. **Ihlanfeldt**. If we are interested in creating incentives for manpower needs, they ought to be separate from student financial assistance.

Mr. **Buchanan**. If I may give a personal reference, my first choice for a career was to go to law school, practice law among black Americans in the Deep South and further the civil rights movement. As a young person, I chose some kind of public service as a career, but the whole system was pitted against my making that kind of choice because it just cost too much money. Therefore, I had to go to work for some giant corporation, or something, in order to make enough money to meet my obligations.

Mr. **IHLANFELDT**. I think that this is the kind of environment that we are going to be in the next 10 or 15 years.

First of all, as long as you have these price differences between public and private higher education, we do not operate in a free market. It is a rather imperfect market. Students need options as to what type of institution they can attend. If they attend high-price institution, then we should be able to offer in-school to those who have a need some kind of loan instrument, including a subsidy, a reasonable repayment schedule, and the exercise of forbearance, if necessary. With such a program, I don't think that we are going to limit any opportunities.

I think we delimit opportunities when we don't recognize what you have just expressed, and we end up with a program such as HEAL, and the law schools, and in a number of other areas, where it is so incredibly expensive to borrow that we are going to force students into areas of medicine which they do not want. We are going to find that rather then meeting shortage needs, or shortage areas with people who have come from those areas, we are going to have people from upper-middle-class homes opting to go in there because of the Federal largess which permits them to reduce their financial commitment. So we are not meeting the objectives of those manpower needs.

I think that it is very subtle difference, but I think that it is one that we have to be concerned about, for students to be able to borrow reasonable amounts of money, with reasonable repayments. If we have manpower needs that we want to meet, then we should create incentives, maybe defer debt until a certain point in time. But don't make it so excessively costly that students don't have an alternative but to opt for those manpower programs.

Mr. **GIBSON**. If you had a loan from our office in that kind of circumstance and if you came in and said: "I have a very low income and I am not able to make the payments despite the fact that I have this $13,000 worth of debt," we would require you to make 6 month reports on what you are doing and what your income level was, and then we would negotiate with you on the basis of your income. In effect, we would say: "We will take a lower monthly payment, geared to your present circumstances. We will forbear for the moment the balance of the payment until such time as your income may change." It turns out that very few people stay at that kind of a depressed level for an extended period of time, but it is conceivable that some would.

Mr. **BUCHANAN**. It is a very commendable policy.

But if you were a bank, or X other institutions, I just wonder whether that would be a general pattern.

Mr. **WEATHERFORD**. It has been very educational for me to listen to these gentlemen, who are dealing with professional groups, and talking about $25,000 or $35,000 loans. Our students come from the low-income families—I think that it is good for you to hear from the other end of the spectrum—as many of the students at the community colleges do. We have a loan maximum internally at our college of $2,000. That $2,000 is total loans.

We start with work, and the second thing that comes is a combination of loans and grants. But the loans stop when they add up to $2,000. After $2,000, it goes to grant or it goes to extra work. So when you need increases, you work extra and you get an incentive built into that system. Everybody has to work 10 hours a week. If you work more than 10, the bonus is double your wages. So it encourages you to work extra. After 15 hours, that stops, and then we go to grants.

So there is a large group of students, and ours are among them, who look at any kind of a loan as something undesirable—they have been told since childhood never to get into debt for any circumstances, and there are a lot of people who are not going to get overly much advantage of a too generous loan system. It is kind of against their built-in principles. They just don't want to get into debt.

I thought it was helpful to give the other side of the picture, the picture of those. For those who want to be doctors and lawyers, certainly we ought to make the opportunity available for them to get much larger loans. I think that this is the nice thing about the self-help whether it is self-help or loans, it does give the flexibility.

Mr. Ford. The committee will now recess until Thursday at 9:30. I want to thank all of you for the productive discussion here this morning, and for your statements for the record. On Thursday, we will be back into title I.

[Whereupon, at 11:35 a.m., the subcommittee adjourned, to reconvene Thursday, June 21, 1979.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

WEDNESDAY, AUGUST 1, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:45 a.m., pursuant to notice, in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Bailey, Buchanan, and Petri.

Staff present: Thomas R. Wolanin, staff director; Patricia F. Rissler, deputy staff director; William C. Clohan, assistant minority education counsel, and Jennifer W. Vance, minority legislative associate

Mr. **Ford**. The Subcommittee on Postsecondary Education will now come to order for the purpose of continuing hearings on the reauthorization of the Higher Education Act and related measures.

Our hearing today will continue our discussion of those features of the administration's reauthorization proposal that represent the most significant departures from current law as well as of the consideration of the remaining portions of the Higher Education Act not yet disposed of in these hearings.

Along that line we want to return to where we were before the administration proposal on the loan programs and hear this morning from our colleague from the State of New Jersey, the Honorable Millicent Fenwick, who has a bill pending before our committee, H.R. 4507, to provide for the exchange of information on student loan defaulters with credit bureaus, which will be considered by the committee in conjunction with our examination of the reauthorization of the loan program.

With that, I would like to welcome Representative Fenwick here this morning on behalf of the committee. Do you have a prepared statement?

STATEMENT OF HON. MILLICENT FENWICK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mrs. **Fenwick**. I have, Mr. Chairman, yes.

Mr. **Ford**. Without objection, your statement will be inserted in full in the record. You may proceed to add to it or supplement it in any way you feel most comfortable.

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Mrs. Fenwick. Thank you, Mr. Chairman. Thank you for the opportunity of coming before your committee.

The bill, as you know, has been before you for some time. I will not elaborate on its provisions, simply to say that this system has been used in New Jersey by our Department of Higher Education with great success. It costs almost nothing. It has improved the collection of our defaulted student loans to a measurable extent.

That is, of course, a problem for the whole country. We have some $4 billion in outstanding loans of which $1 billion are in default. Mr. Nester pointed out in his testimony before the other body, and he has outlined to me in conversations and correspondence, that the present way of granting loans that are somehow not to be repaid is not a service to the students. Very often they begin to accumulate indebtedness which is beyond their capacity and it is much better for them to know at the start that this is serious and that they will be required to pay.

I would like to suggest one thing, Mr. Chairman, if I may. I have an amendment to the bill. I got a very interesting letter from Illinois outlining a system that they have there, allowing more flexibility in the declaration of default. There are those students who may have a serious family problem, illness in the family or something which precludes their paying absolutely on time and the bill should provide that flexibility to the lending institution which would take into account those special individual difficulties that may arise and have nothing to do with desire to avoid a just debt. So, with that small caveat to the bill, itself, I will put this statement in the record and thank you, Mr. Chairman, very much indeed.

[The full statement of Millicent Fenwick follows:]

Prepared Statement of Hon. Millicent Fenwick, a Representative in Congress From the State of New Jersey

Mr. Chairman and Members of the Committee: I am happy to appear before this distinguished subcommittee to discuss the responsible repayment of Federal student loans. The steady rise in defaulted student loans is a matter of concern to all of us. A recent report by the Comptroller-General indicates that fully one-fourth of the $4 billion in receivables due the U.S. Office of Education is now in default. Much of this money will simply be written off as uncollectable. When government fails to collect its debts in this way, some people are given benefits to which they are not entitled, and others are cheated. Loan programs are converted to grant programs. And losses to the government of this magnitude can have no effect other than to increase the tax burden and inflate the already oversized budget deficit.

This same report by the General Accounting Office further asserts that the adoption of a practice used routinely in the private sector—the reporting of debtor information to credit bureaus—could prove extremely beneficial to the government in debt collection. Statutory authority already exists for the Office of Education to do this, but despite Secretary Califano's recent call for vigorous action to collect on defaulted loans, no action has been taken up to now.

The potential benefits of reporting defaulted loans to private credit bureaus have been amply and effectively demonstrated in my home state of New Jersey. Since December of 1975, when New Jersey began this practice, fewer loans have entered default, and there has been a marked increase in the number of students making payments on loans which had previously been classified as defaulted. New Jersey has brought its default rate on Guaranteed Student Loans well below the national average.

My bill, H.R. 4507, which has been endorsed by the entire New Jersey delegation in the House, would require that the Commissioner of Education report a defaulted loan to a credit bureau after a reasonable effort has been made to collect the loan and to verify the accuracy of the information. Only the date of disbursement and the amount of the loan, information concerning collection and the date of cancellation of the note upon completion and repayment by the borrower would be reported. Cooperating credit bureaus would be required to record promptly any errors or objections raised by the borrower. Another section of the bill, permissive rather than mandatory, would allow the Commissioner to obtain from the credit bureaus information about the location of defaulters.

I would like to emphasize that this bill would authorize the use of credit bureaus—that is, credit data reporting agencies—and not collection agencies. These organizations do not collect money, they merely provide potential credit grantors in the business community with a picture of an individual's overall credit history, so as to be sure that all current indebtedness is considered before additional credit is granted to the individual. According to Mr. William C. Nester, the Director of New Jersey's High Education Assistance Authority, the educational loan "may well be the second largest indebtedness during the lifetime of an individual," surpassing, in most cases, the size of the car loan and exceeded only by the home loan. "Failure to include educational loans as part of a person's credit history creates a distorted financial picture," Nester maintains, and as a result a person can easily become overindebted. "When you allow an individual to become so heavily indebted that he must . . . declare bankruptcy, you have performed no service for that individual." In other words, including student loans as part of this credit history would not only be beneficial to the government, by providing an incentive for timely repayment of what is owed, but also to the individual, by helping to prevent overindebtedness.

There are a few changes and corrections which would improve the bill as it was originally introduced last month. Some are technical in nature and will be supplied later. Most importantly, a provision should be added which would grant discretionary authority to refrain from reporting information about a particular loan in exceptional circumstances. They may be instances where a loan is technically in default, but where there is every reason to believe that the borrower fully intends to repay, though he or she is temporarily unable to do so due to an illness in the family, or some similar problem. The bill as drafted does not allow for such an eventuality, but I think it would be wise to provide for flexibility which now exists in situations where default is accidental and not chronic.

I understand that there are a number of proposals currently under consideration to overhaul the existing student loan programs. Whatever form the programs take, however, as long as there are loans which use Federal capital or are covered by Federal guaranties, there will be a need for incentives for prompt and responsible repayment on the part of the borrower. My legislation contains a simple and sensible proposal which does not involve very much paperwork and which has been proven to be effective in promoting repayment in this fashion. If this system is incorporated into this year's reauthorization of the Higher Education Act, money which will be collected from former students, much of which would otherwise be written off as uncollectable, will be available to help defray the costs of education for students of tomorrow.

I

96TH CONGRESS
1ST SESSION

H. R. 4507

To amend title IV of the Higher Education Act of 1965 to provide for the exchange of information concerning defaulting student borrowers with credit bureau organizations to promote responsible repayment of Federal student loans.

IN THE HOUSE OF REPRESENTATIVES

JUNE 18, 1979

Mrs. FENWICK introduced the following bill; which was referred to the Committee on Education and Labor

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A BILL

To amend title IV of the Higher Education Act of 1965 to provide for the exchange of information concerning defaulting student borrowers with credit bureau organizations to promote responsible repayment of Federal student loans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. (a) Section 430(b) of the Higher Education Act of 1965 is amended by inserting "(1)" after "(b)" and by adding at the end thereof the following new paragraph:

"(2)(A) For the purpose of promoting responsible repayment of loans covered by Federal loan insurance or guarantees pursuant to this part, the Commissioner shall enter into cooperative agreements with credit bureau organizations providing for the exchange of information concerning student borrowers in accordance with the requirements of this paragraph. Subject to the requirements of subparagraph (C), such agreements shall provide for the disclosure by the Commissioner to such organizations with respect to any loan for which the Commissioner has received a notice of default under subsection (a) of this section of—

"(i) the date of disbursement and the amount of any such loan;

"(ii) information concerning delinquency in the repayment of any such loan, including information concerning the status of any defaulted loan on which the Commissioner has made a payment pursuant to subsection (a) of this section;

"(iii) the date of cancellation of the note upon completion of repayment by the borrower of any such loan.

"(B) Such agreements may also provide for the disclosure by such organizations to the Commissioner, upon receipt from the Commissioner of a notice under subparagraph (A)(ii) that such a loan is in default, of information concerning the borrower's location or other information which may assist the

Commissioner in proceeding to collection of the defaulted amount.

"(C) Agreements entered into pursuant to this paragraph shall contain such provisions as may be necessary to ensure that—

"(i) no information is disclosed by the Commissioner unless its accuracy and completeness have been verified, and no information stating that a loan is in default is disclosed until the Commissioner has made a reasonable effort to collect the debt;

"(ii) as to any information so disclosed, such organizations will be promptly notified of, and will promptly record, any changes or corrections in, or objections by the borrower with respect to, any such information;

"(iii) no use will be made of any such information which would result in the use of collection practices with respect to such a borrower that are not fair and reasonable or that involve harrassment, intimidation, false or misleading representations, or unnecessary communication concerning the existence of such loan or concerning any such information.

"(D) The Commissioner shall, within ninety days after the date of enactment of this paragraph, take such steps as may be necessary to establish the disclosure of information described in subparagraph (A) (i), (ii), and (iii) as a routine use in accordance with section 552a(b)(3) of title 5, United States Code, and to establish a system for the prompt notification of any borrower of any disclosure made pursuant to this paragraph.".

(b)(1) Section 427(a)(2) of the Higher Education Act of 1965 is amended by redesignating subparagraphs (H) and (I) as subparagraphs (J) and (K), respectively, and by inserting after subparagraph (G) the following new subparagraph:

"(H) contains a notice of the system of disclosure of information concerning such loan to credit bureau organizations under section 430(b)(2),".

(2) Section 428(b)(1) of such Act is amended by redesignating subparagraphs (O) and (P) as subparagraphs (P) and (Q), respectively, and by inserting after subparagraph (N) the following new subparagraph:

"(O) provides that the note or other written agreement evidencing the loan contains a notice of the system of disclosure of information concerning such loan to credit bureau organizations under section 430(b)(2),".

SEC. 2. (a) Section 463 of the Higher Education Act of 1965 is amended by adding at the end thereof the following new subsection:

"(c) For the purpose of promoting responsible repayment of loans made pursuant to this part, the Commissioner shall enter into cooperative agreements, in accordance with the requirements of section 430(b)(2), with credit bureau organizations providing for the exchange of information concerning student borrowers concerning whom the Commissioner has received notice pursuant to subsection (a)(4).".

(b) Section 464(c)(1) of such Act is amended by striking out "and" at the end of subparagraph (G), by striking out the period at the end of subparagraph (H) and inserting in lieu thereof "; and", and by adding at the end thereof the following new subparagraph:

"(I) contains a notice of the system of disclosure of information concerning default on such loan to credit bureau organizations under section 463(c).".

SEC. 3. (a) The amendments made by section 1(b) and 2(b) shall apply with respect to loans made more than one hundred and eighty days after the date of enactment of this Act.

(b) The Commissioner shall take such steps as may be necessary to inform borrowers of loans made under part B or E of title IV of the Higher Education Act of 1965 of the establishment of the system of disclosure of information concerning such loans to credit bureau organizations under sections 430(b)(2) and 463(c), respectively, and of the applicability of such system to loans made to such borrowers.

Mr. Ford. Thank you. I believe Carol Wennerdahl, director of the State program in Illinois, has been in contact with you on this. She has written directly to the committee concerning your bill.

Mrs. Fenwick. It was Illinois, that is right. Thank you, Mr. Chairman.

Mr. Ford. She makes reference to her conversations with Mr. Nester of your State regarding this practice. Apparently it is done in Illinois as well. I am informed that, while the Office of Education does not now do this, it is one of the alternatives being studied in conjunction with other things as they are moving step by step into more aggressive collection of student loans.

I think that it probably is permissible under the present law but clearly there would be no harm in establishing as a matter of law that they could do it. There is some hesitancy, however, on mandating that all of the State agencies or the Department would have to do it at any given time.

Some of the State agencies might resist doing it. But the Department may or may not be able to do it. We would rather see what they plan to do before they put it into action with regulations. We have a chance when we do that if we mandate it by statute.

I am afraid that they might get their practice into existence without coming back to us in a way that could lead us into trouble. The only trouble I have is whether or not you would consider the language in your bill that says that the Department "shall" as language that we can examine with the possibility of saying "can" or "will" or "may" turn into a clearly established power within the jurisdiction of the Department and the State but not mandate that they do it.

Mrs. Fenwick. I would be worried about that, Mr. Chairman. The fact is that, as you say, by inference if not exactly, it is now permissible and it is simply not being done. I think we have allowed a great many young students to be lulled into a feeling that this is not a serious loan program in the sense of a loan but rather something that can be forgotten if it is not convenient.

It does make a difference; it means we can help more students if we have loan returned on time. This has been recommended by the GAO and it is in accord with the Privacy Act too; it would be proper under the Privacy Act. I think we come to a time now with $1 billion outstanding when we can no longer continue with purely permissive measures.

I think there should be that flexibility that would allow for special individual problems but I really think we are going to have to be a little stronger in defending the public purse, not because we want to be mean but because we want to be able to take care of more students if we get the loans paid by those who can afford to pay.

Mr. Ford. Thank you very much. Perhaps we can get a reaction to this from the administration during the next panel when we have some of their most able representatives of the brain trust now in charge over there on our next panel. I am sure that one or more of them can respond to the initiative on your part and give us some idea of what they have in mind.

Mrs. Fenwick. We have one right here beside me.

Mr. **Ford**. He is going to be right in the middle for the rest of the morning. Thank you very much.

Mrs. **Fenwick**. Thank you, Mr. Chairman.

Mr. **Ford**. Now, to discuss the administration's student loan proposal we will have a panel consisting of Fred Bohen, Assistant Secretary for Management and Budget; Michael O'Keefe, Deputy Assistant Secretary for Planning and Evaluation, both of the Department of Health, Education, and Welfare; Joel Packer, U.S. Student Association; Helge Holst, Massachusetts Higher Education Assistance Corp.; Edward Fox, president, Student Loan Marketing Association; Dallas Martin, executive director of the National Association of Student Financial Aid Administrators; Jerry Gibson, Consortium of Financing Higher Education; and Ed Piana, executive vice president, Bay Bank Norfolk County Bank and Trust, Dedham, Mass., representing the American Bankers Association.

Without objection, the prepared statements presented to the committee by the members of the panel will be inserted in full in the record.

We will proceed first with Mr. Bohen to discuss the subject matter this morning. I want to give everybody an opportunity to give their comments and then come back with an exchange which we hope will be among you on the panel rather than between members of the committee and the panel.

We will appreciate very much if this panel will develop for us a dialog on the reactions to the administration and the administration's responses thereto. We will start with Mr. Bohen.

STATEMENT OF FRED BOHEN, ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, ACCOMPANIED BY MICHAEL O'KEEFE, DEPUTY ASSISTANT SECRETARY FOR PLANNING AND EVALUATION/EDUCATION; THOMAS BUTTS, BUREAU OF STUDENT FINANCIAL ASSISTANCE; AND BOB DAVIDSON, POLICY ANALYST, BUREAU OF STUDENT FINANCIAL ASSISTANCE, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. **Bohen**. Mr. Chairman, I am pleased to be here today to discuss in more detail and to respond to questions from my colleagues on the administration's loan proposals which were contained in Secretary Califano's July 19 testimony. I have a full statement which has been provided and which will be inserted in the record.

I would like to hit the salient points of that testimony as I see them. The administration has conceived these loan reform proposals in the context of current economic and budgetary limitations and the anticipated future cost of existing programs.

We are committed to fully phasing in these proposals if they are enacted by the Congress over the next 3 years. As I indicated 2 weeks ago, we believe the existing Federal student loan programs are plagued with severe problems that need to be addressed. These include inadequate access to loan capital, administrative complexity, overlapping and unclear purpose, high default rates, as has just been referenced by Congresswoman Fenwick, and high costs to the taxpayer.

Briefly stated the administration has sought to clarify the purpose, to modify the terms and to restructure the administration of the Federal Government's two major student loan programs: NDSL and GSL. In their place we propose two loan programs, a basic loan program which would be based on financial need and a supplemental loan program which would allow parents as well as students to spread the cost of education over a longer period of time.

I detail the salient characteristics of each of those proposals and they are in my testimony, and I will not repeat those here today except in the context of questions. It is worth, I think, trying to restate briefly the problems with the existing programs that we believe our proposals address and the arguments that we would advance to support them.

We believe our basic loan program builds upon the best features of the present national direct student loan program and remedies its most glaring deficiencies. Under our proposal, loans will continue to be based on need, with the financial aid officer of the educational institution determining the amount of the loan and disbursing the funds in the same manner as under the current NDSL program.

However, our reform seeks to improve the availability and make more equal the distribution of loan capital. The Federal Government would accept the servicing and collection functions which under NDSL many schools find costly as well as onerous. One of the major weaknesses of the current NDSL program is that only about 3,300 of the 6,000 eligible institutions choose to, or are able to, participate because of both the burden of loan collection and the requirement of institutional capital investment.

This excludes many needy students and forces them into the guaranteed student loan program where we believe the poor, minorities and women have not been adequately served. In addition, since the program's original goal of establishing a self-financing revolving fund has not been achieved and there are problems with the current allocation formula, many needy students are denied access to NDSL because of limited or inequitably distributed funds.

We advance our proposal with the view that it will assure access to loan capital for all students with the remaining financial need. For example, a dependent student who attends an institution for which the cost of attendance is $4,000 and who has a parental contribution of $1,000 in addition to a self-help expectation of $700 would have a remaining need of $2,300.

This student would be eligible for a basic loan of $2,300 less any other financial assistance awarded through BEOG, State, local, or other institutional aid resources. The purpose of limiting eligibility for the basic loan to remaining need is to assure that students have taken advantage of the large and recently expanded grant and work programs and that families continue to help meet educational costs to the extent that they are able before students assume a loan burden.

We believe that the lowest income students attending low to moderate price institutions should be assisted primarily with grants and work opportunities using loans only as a source of last resort. Because of the vast expansion in Federal grants and work programs as well as changing economic conditions, we see the current NDSL interest rate of 3 percent as hopelessly out of date and exceedingly costly to the taxpayer.

In 1965, except for some veterans benefits that were available, NDSL was the only Federal program of general assistance to students. Today, in the Office of Education alone, student loan programs total over $5 billion. During this time the role of NDSL has changed so that grants, rather than loans, have become the basic source of financial support for low-income students.

In 1958 when NDSL began, 91-day Treasury bills were about 3 percent. Today they are over 9.5 percent and unsecured personal loans range from 12 to 15 percent.

In light of these changes, we propose an interest rate of 7 percent or 1 percent below the Treasury bill rate, whichever is lower, for the basic loan. This rate is still clearly subsidized heavily as a public policy and still several points below the current rate for commercial loans or home mortgages.

Our proposed supplemental loan program builds on the strength of the current GSL program. However, we propose to sharpen the focus and purpose of that program by making clear that these loans are to provide families with the option of borrowing the expected family contribution rather than spending out of current income and to provide students with the option of borrowing to replace their self-help expectation.

For the first time, under our proposal, parents will be able to borrow directly their share of the family contribution at a subsidized interest rate in order to solve the cash flow problems faced by many middle-income families. Next to the purchase of a home, paying for a child's postsecondary education is in many cases the largest investment a family makes.

We also propose to change the law in such a way that eligible parents and students can more easily obtain loan capital. Our proposal will help increase access to capital by permitting direct borrowing by parents with whom banks in many cases would prefer to deal. It would also focus on the resources of secondary market.

Supplemental loans will be available without regard to income and will still be priced at favorable interest rates compared with other consumer loans. Students will continue to be able to borrow under this program when other sources of financial assistance, together with a self-help expectation, do not meet the cost of attendance.

However, except for parents and graduate students, we expect loan volume for undergraduate students to be significantly below current levels. As you know, Mr. Chairman, we also propose the creation of a Government student loan association which would administer and coordinate the financing of both these programs as well as perform the secondary market functions now performed by the Student Loan Marketing Association.

This association would be an agency of the Federal Government responsible to the Secretary of HEW or the Secretary of Education, but it would have a corporate, businesslike structure similar to Ginnie Mae within the Department of Housing and Urban Development.

We are convinced that the national secondary market for supplemental loans should be under direct Federal control, that the functions now performed by Sallie Mae can be performed efficiently within the Federal Government and at less cost to the taxpayer.

We believe that the independent-for-profit nature of Sallie Mae has inhibited it from fully fulfilling its public service mission. In the interest of profitability, Sallie Mae has traditionally pursued conservative loan purchasing policies such as imposed "buy back," stock purchase, minimum loan purchase, and other conditions on the use of its programs.

The Government agency we recommend would impose no such limitations and would have as its goal public policies designed to expand the availability of and provide for a better distribution of student loan capital. Given the proposed new financing system for basic loans and the complementary and interdependent purposes of the two loan programs that we have proposed, we believe that consolidated management by the Government Student Loan Association is both appropriate and desirable.

For example, consolidation of a student's basic and supplemental loans into a single flexible repayment schedule would be facilitated by such an arrangement. In order to speedily and smoothly accomplish the transfer of market functions from Sallie Mae to the new agency, we envisage a situation in which Sallie Mae's outstanding Federal banking obligations would be assumed by the Federal Government in exchange for an equivalent amount of Sallie Mae student loans and other assets.

This would be accomplished by allowing HEW's guarantee of Sallie Mae's debts to the Federal Financing Bank to expire in accordance with existing law and ending its ability to make further supplemental loan purchases or other warehousing arrangements. Our proposal would authorize the new Government Association to perform these functions as of the beginning of fiscal year 1982 and would expect the transition to be fully accomplished by the end of the first quarter of that fiscal year.

While there are many ways to accomplish this transition, we believe these arrangements provide for equitable treatment of the Federal Government's interests as well as those of Sallie Mae.

In response to Congressman Buchanan's request when I testified here 2 weeks ago, I am enclosing with my statement today a summary of the projected program costs, loan dollar volumes, and data on the number of students we expect to benefit under our loan reform proposals. These represent our best estimates based on current economic assumptions and data available to us on student and lender participation.

Mr. Chairman, my associates and I will be pleased to answer any questions you have. I am accompanied today by Michael O'Keefe, Deputy Assistant Secretary for Planning and Evaluation who has led the departmental task force that has developed these and other proposals in connection with the reauthorization; Mr. Thomas Butts, policy advisor in the Bureau of Student Financial Aid; and Bob Davidson, a policy analyst in the loan area.

[The full statement of Frederick M. Bohen follows:]

TESTIMONY OF FREDERICK M. BOHEN, ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. Chairman, Members of the Subcommittee, I am pleased to be here today to discuss in more detail the Administration's loan proposals which were contained in Secretary Califano's July 19 testimony.

The Administration has conceived these proposals in the context of current economic and budgetary limitations, and the anticipated future cost of existing programs. We are committed to fully phasing in these proposals, if enacted by the Congress, over the next three years.

As I indicated two weeks ago, we believe Federal student loan programs are in dire need of overhaul. The programs are plagued with severe problems which need to be addressed. These include inadequate access to loan capital, administrative complexity, uneven and overlapping purposes, high default rates, and high costs to the taxpayer.

Briefly stated, the Administration has proposed to clarify the purpose, modify the terms, and restructure the Administration of the Federal Government's two major student loan programs—the National Direct Student Loan (NDSL) program, and the Guaranteed Student Loan (GSL) program. In their place, we propose two loan programs—a Basic Loan program, which would be based on financial need, and a Supplemental Loan program, which would allow parents as well as students to spread the costs of education over a longer period of time.

The Basic Loan program would have the following features:

Federal capital would be used to assure access to loans;

All needy undergraduate and graduate students attending school on at least a half-time basis—except those attending graduate and professional schools in the health professions, business, and law—would be eligible;

Loans would be limited to remaining need after consideration of other Federal, State, local and institutional aid, and family and student self-help contributions;

Basic Loans would be subsidized by the Federal Government at interest levels substantially below the market rate. Interest rates would be set at 7 percent, or the Treasury Bill rate minus 1 percent, whichever is less. Undergraduate students would pay no interest while in school and until 4 months after completion of their course of study;

Loan limits would be set at $3,750 annually and $12,500 cumulatively for undergraduates, and $5,000 annually and $25,000 in the aggregate for both undergraduate and graduate study;

Loans would originate on the campuses and we would continue to rely on the financial aid officer to work out student aid packages and disburse funds;

The terms of repayment by the student would be flexible, including graduated options and repayment periods based on total indebtedness.

The program would be phased-in over three years. We would fund approximately 60 percent of estimated need in FY 1981, increasing to 100 percent by fiscal year 1983.

Mr. Chairman, we believe that our Basic Loan program builds upon the best features of the present National Direct Student Loan Program (NDSL) and remedies its most glaring deficiencies.

Loans will continue to be based on need with the financial aid officer determining the amount of the loan and dispensing the funds in the same manner as the current NDSL program. However, the availability and equitable distribution of loan capital will be assured by the Federal government and servicing and collection functions, which many schools find costly as well as onerous, will be assumed by the proposed Government Student Loan Association, which will administer the program.

One of the major weaknesses of the current program is that only about 3,300 of the 6,000 eligible institutions choose to, or are able to, participate—both because of the burden of loan collection and the requirement of institutional capital investment. This excludes many needy students and forces them into the Guaranteed Student Loan Program (GSL)—where we believe the poor, minorities, and women have not been adequately served.

In addition, since the program's original goal of establishing a self-financing revolving fund has not been achieved and there are problems with current allocation formulae, many needy students are denied access to NDSL because of limited or inequitably distributed funds. Our proposal will assure access to loan capital for all students with a "remaining financial need".

For example, a student who attends an institution for which the cost of attendance is $4,000 and has a family contribution of $1,000 in addition to a self-help expectation of $700 would have a remaining need of $2,300. This student would be eligible for a Basic Loan of $2,300 less any other financial assistance awarded through BEOG's, State or other local or institutional aid programs.

The purpose of limiting eligibility for the Basic Loan to "remaining need" is to assure that students have taken advantage of the large, and recently expanded grant and work programs, and that families continue to help meet educational costs before students assume a loan burden. We believe that the lowest income students attending low to moderate-priced institutions should be assisted primarily with grants and work opportunities, using loans only as a source of last resort.

Because of the vast expansion in Federal grant and work programs as well as changing economic conditions, the current NDSL interest rate of 3 percent is hopelessly out-of-date and exceeding costly to the taxpayer. In 1958, except for veterans benefits, NDSL was the only Federal program of general assistance to students. Today, these programs total over $5 billion. During this time, the role of NDSL has changed so that grants—rather than loans—have become the basic source of financial support for low-income students. Also, in 1958, 91-day Treasury Bills were about three percent. Today, they are over nine and one-half percent and unsecured personal loans range up to 18 percent. In light of these changes, we propose an interest rate of 7 percent (or 1 percent below the Treasury Bill rate, whichever is lower) for the Basic Loan—a rate still several points below the current rate for commercial loans or home mortgages.

Our second program—the Supplemental Loan program—would have the following features:

Loans would be available to all students and parents regardless of family income for educational costs not met by other sources;

Interest would be set at the Treasury Bill rate plus 1 percent, as contrasted with the 7 percent rate for the Basic Loans;

A special allowance payment to lenders would be set as 2.5 percent to keep Supplemental Loans competitive with other banking investments;

Interest would not be forgiven. Instead the amount of the loan would be increased at the outset to cover the student's interest payments for the in-school period;

Capital would be provided by the private sector, with loans being insured by State guarantee agencies and the Federal Government, as in the current GSL program.

Loan limits, when combined with any amount borrowed under the Basic Loan program, could not at any time exceed $20,000 for undergraduates and $40,000 for both undergraduate and graduate studies.

Our proposed Supplemental Loan Program builds on the strengths of the current Guaranteed Student Loan (GSL) program. However, we propose to sharpen its focus and purpose by making clear that these loans are to provide families with the option of borrowing "the expected family contribution" rather than spending out of current income, and to provide students with the option of borrowing to replace the self-help expectation.)

For the first time, parents will be able to borrow directly their share of the family contribution at a subsidized interest rate in order to solve the cash flow problems faced by many middle income families. Next to the purchase of a home, paying for a child's postsecondary education is in many cases the largest investment a family makes.

We also propose to change the law in such a way that eligible parents and students can more easily obtain loan capital. Our proposal will help increase access to capital by permitting direct borrowing by parents (with whom many banks would deal), and by, among other things, focusing secondary market support.

Supplemental loans will be available without regard to income and will still be priced at favorable interest rates, compared with other consumer loans.

Students will continue to be able to borrow under this program when other financial assistance, together with the self-help expectation, do not meet the cost of attendance. However, except for parents and graduate students, we expect this loan volume to be significantly below current levels. Students who have problems with respect to obtaining the family contribution may also use this program. In addition, the financial aid officer will have the right to waive the family contribution in unusual circumstances.

Mr. Chairman, in addition to, and in support of these significant changes in the terms of our two major student loan programs, we also propose a major organizational and administrative change. We propose the creation of a Government Student Loan Association which would administer and coordinate the financing of both programs, as well as perform the secondary market functions now performed by the Student Loan Marketing Association. This agency would be an agency of the Federal Government, responsible to the Secretary, but it would have a corporate, business-like structure—similar to "Ginnie Mae" within the Department of Housing and Urban Development.

We are convinced that the national secondary market for Supplemental Loans should be under direct Federal control, that the functions now performed by Sallie

Mae can be performed efficiently within the Federal Government and at less cost to the taxpayer.

We believe that the independent, for-profit nature of the Student Loan Marketing Association has inhibited it from fully fullfilling its public service mission. In the interest of profitability, Sallie Mae has traditionally pursued conservative loan purchasing policies, and has imposed "buy back", stock purchase, minimum loan purchase and other conditions on the use of its programs. The government agency we recommend would impose no such limitations, and would have as its goal public policies designed to expand the availability of and to provide for a better distribution of student loan capital.

Given the proposed new financing system for Basic Loans, and the complementary and interdependent purposes of the two loan programs, we believe that consolidated management by the GSLA is necessary and appropriate. For example, consolidation of a student's Basic and Supplemental Loans into a single flexible repayment schedule can be best accomplished under this proposal.

In order to speedily and smoothly accomplish the transfer of secondary market functions from Sallie Mae to the new agency, we envision a situation in which Sallie Mae's outstanding Federal Financing Bank obligations would be assumed by the Federal government in exchange for an equivalent amount of Sallie Mae's student loan and other assets. This would be accomplished by allowing HEW's guarantee of Sallie Mae's debts to expire, as provided for in the authorizing legislation, and ending its ability to make further GSL loan purchase or warehousing transactions. Our proposal would authorize the new Association to perform these functions as of the beginning of fiscal year 1982.

It will be essential, however, to ensure an orderly transition between a private profit-making corporation now is partnership with the Federal Government to a fully Federal activity. We are concerned that the rights of stockholders and employees be protected and dealt with fairly. For this reason, we propose authority to purchase Sallie Mae assets, and to take on its debts—subject to agreement of both parties. Under our proposal, the transition would be completed by December 31, 1981.

According to our information, Sallie Mae would be left with sufficient assets (property, retirement fund, etc.) such that there could be pay-off of stockholders and other debt holders. The new Association would, of course, have the ability (but not the obligation) to hire professional and other personnel now employed with Sallie Mae.

While there are many ways to accomplish this transition, we believe these arrangements provide for equitable treatment of the Federal Government's interests as well as those of Sallie Mae.

In response to Congressman Buchanan's request, when I last appeared before you, I am enclosing with my statement today a summary of projected program costs, loan dollar volumes, and data on the number of students expected to benefit from our loan proposals. These represent our best estimates based upon current economic assumptions and the data available to us concerning student and lender participation.

Mr. Chairman and members of the Subcommittee, my associates and I will be pleased to answer any questions you have.

COMPARATIVE SUMMARY OF COSTS AND PROGRAM DATA FOR THE ADMINISTRATION'S STUDENT LOAN PROPOSALS

The attached table provides a comparison of the costs, loan volumes and number of students aided under the current and proposed student loan programs. Also included are the assumptions made in developing the estimates.

The table shows the following:

Costs

The costs of the current Guaranteed Student Loan Program are expected to increase from $1,180 million in 1980 to $3,520 million in 1985, an increase of almost 200 percent.

Under the Administration's proposal, the combined costs of the Basic and Supplemental programs would increase from $1,500 million in 1981 to $3,335 million in 1985, an increase of about 125 percent.

The Basic Loan Program would be phased in over a three year period, supporting 60 percent of estimated student need in 1981, 80 percent in 1982 and 100 percent in 1983.

In 1981, the phase-in scheme permits cost savings of $150 million when compared to the expected costs of the existing loan programs.

In 1982, the cost of the proposed and existing programs would be about the same.

In 1983, the first year for full-funding of the Basic Loan program, the combined costs of the proposed loan programs would be $265 million greater than the costs of the current programs.

By 1984, the cost difference narrows to $45 million and by 1985, the proposed programs show cost savings of $405 million when compared to the costs of the current programs. These cost savings are possible because of significant repayments of Basic Loans, making it possible to reduce the amount of loan capital borrowed from the Treasury.

Loan volume under the current programs is expected to increase from $4,760 million in 1981 to $7,640 million in 1985, while loan volume in the proposed programs would increase from $3,000 million in 1981 to $5,310 million in 1985.

Loan Volume in the Supplemental program would increase generally each year from $2,160 million in 1981 to $2,930 million in 1985 which is significantly below expected loan volume increases in the current Guaranteed Student Loan program for the same period. Loan volume in the Basic program would increase more substantially from $900 million (funding 60 percent of student need) in 1981 to $2,380 million (fully funding student need) in 1985. Many of the students currently served by GSLP would receive need-based Basic Loans, reducing the demand for the more costly Supplemental Loans.

The overall reduction in loan volume in the proposed programs is possible because these loans would be limited to need in the Basic Loan program and to replacement of the expected family contribution and the self-help expectation in the Supplemental Loan Program. In addition, the combination of grants, State aid, institutional aid, and loans could not exceed the cost of education.

Students aided and average loan amounts

The total number of students aided would increase from 2.5 million in 1980 under the current programs to 2.8 million in 1985 under the proposed programs.

Loans under the Basic program:

Loans averaging $720 will be provided to 1,250,000 students in 1981.

When the program is fully funded in 1983, loans averaging $1,405 will be provided to 1,352,000 students and by 1985, loans averaging $1,630 will be provided to 1,460,000 students.

The average amount of the Basic Loans is significantly higher than the Direct Loan because the Basic Loan will provide the funding required to meet student need after taking into consideration other Federal, State, local and institutional aid, family contributions, and student self-help.

Loans under the Supplemental program:

Loans averaging $1,600 will be provided to 1,350,000 students in 1981, and by 1985, loans averaging $2,175 will be provided to 1,347,000 students.

The reduction in the average Supplemental loan from the current Guaranteed loan is possible because student need will be met through the Basic program with the Supplemental loan substituting for the expected family contribution and the self-help requirement. In addition, the Supplemental loan will be priced closer to current interest rates and students and parents will be less inclined to turn to these loans.

Costs and Loan Dollar Volume: Current and Proposed Programs

(Dollars in Millions)

Costs	1978	1979	1980	1981	1982	1983	1984	1985
CURRENT PROGRAMS:								
Direct Loans (NDSL).....	$ 310	$ 310	$ 220	$ 220	$ 220	$ 220	$ 220	$ 220
Guaranteed Loans (GSL).	520	970	1,180	1,430	1,780	2,200	2,760	3,520
Total............	830	1,280	1,400	1,650	2,000	2,420	2,980	3,740
PROPOSED PROGRAMS:								
Basic Loans								
Capital...............	--	--	--	485	950	1,572	1,847	2,117
Cost of Borrowing from Treasury.............	--	--		30	210	323	303	198
Subtotal, with phase-in	--	--	--	515	1,160	1,895	2,150	2,315
(Full cost)				(1,130)	(1,570)	(1,895)	(2,150)	(2,315)
(% Loan Volume)				(60%)	(80%)	(100%)	(100%)	(100%)
Supplemental Loans:								
Subsidies and Default Payments.............	--	--	--	985	840	790	875	1,020
(Phase-out of GSI)....	--	--	--	(910)	(705)	(530)	(390)	(275)
Total, Proposed Programs...........	830	1,280	1,180	1,500	2,000	2,685	3,025	3,335
COSTS OF PROPOSED PROGRAMS COMPARED WITH CURRENT PROGRAMS.................	--	--	--	-150	--	+265	+45	-405

(Dollars in Millions)

	1978	1979	1980	1981	1982	1983	1984	1985
Loan Dollar Volume								
CURRENT PROGRAMS:								
DIRECT LOANS.............	$605	$640	$640	$640	$640	$640	$640	$640
GUARANTEED LOANS.........	1,855	2,600	3,530	4,120	4,760	5,430	6,210	7,000
Total..........	2,460	3,240	4,170	4,760	5,400	6,070	6,850	7,640
PROPOSED PROGRAMS:								
Basic Loans..............	--	--	--	900	1,330	1,900	2,140	2,380
Supplemental Loans.......	--	--	--	2,160	2,340	2,540	2,730	2,930
Total..........	--	--	--	3,060	3,670	4,440	4,870	5,310
Students Aided								
Direct/Basic Loans:								
No. Students Aided (Thousands)...............	852	901	901	1,250	1,285	1,352	1,417	1,460
Average Loan ($)...........	710	710	710	720	1,035	1,405	1,510	1,630
Guaranteed/Supplemental Loans:								
No. Students Aided (Thousands)...............	1,025	1,300	1,620	1,350	1,353	1,358	1,355*	1,347*
Average Loan($)............	1,810	2,000	2,190	1,600	1,730	1,870	2,015	2,175
Total No. Students Aided (Thousands)...............	1,877	2,201	2,521	2,600	2,638	2,710	2,772	2,807

*Reduction in number of students aided caused by expected decline in enrollments.

Explanation of Summary Table

Cost estimates are a function of dollar volume of loans and interest rate assumptions.

Current Programs

Guaranteed Loans:

--Dollar volume assumptions for FY 1979 and FY 1980: Increases in first half of FY 1979 of 38 percent continue through FY 1980.

--Loan dollar volume assumptions for FY 1981 - FY 1985.

- Postsecondary enrollment declines gradually consistent with NCES projections.
- Average loan amount increases by eight percent per year.
- Participation increases by one percent per year from 15 percent in FY 1981 to 19 percent in FY 1985.

--Special allowance rate based on OMB's mid-session projections of 91-day Treasury bills.

Direct Loans:

--Continues current level for new Federal capital contributions to institutional revolving funds.

Proposed Programs

Cost estimates exclude the cost of the proposed Government Student Loan Association which would administer the new Basic and Supplemental Loan programs and provide a secondary market for supplemental loans.

Supplemental Loans:

--Loan dollar volume assumptions for FY 1981 through FY 1985:

- Participation of eligible students remains constant at 15 percent.

- Average loan amount increases by eight percent per year.
- Enrollments gradually decline consistent with NCES projections.

--Yield to lender: 91-day Treasury bills plus 3-1/2 percent (based on OMB's mid-session projections of 91-day Treasury bills).

--Cost to student: 91-day Treasury bills +1 percent. Federal Government pays difference of 2 1/2 percent for duration of loan.

Basic Loans:

--Loan dollar volume assumptions

- Participation of eligible students increases from 21 percent in FY 1981 to 25 percent in FY 1985.
- Average loan amount increases by 8 percent per year.
- Enrollments decline gradually consistent with NCES projections.

--Capital: Amount of loan capital borrowed from Treasury.

--Cost of Borrowing from FFB: Assumes that amount borrowed will be repaid over ten years at an interest rate of T-Bills plus 1/8 of one percent. Payments to FFB are net of income from collections.

--Claims: 5 percent of annual loan volume that is eligible for repayment is loss as the result of default, bankruptcy, death, or disability.

--Phase-in Plan: Program phased in over three years, with 60 percent of total loan volume in 1981, 80 percent in 1982 and reaching 100 percent in 1983.

Mr. **Bailey** [presiding]. Thank you very much.

Mr. Petri, do you have any questions at this time?

Mr. **Petri**. Not at this time.

Mr. **Bailey**. We had a very good exchange yesterday. We had good point-counterpoint exchange among members of the panel that was very informative. Let us now hear from Mr. Joel Packer.

[Prepared statement of Joel Packer follows:]

PREPARED STATEMENT OF JOEL PACKER, LEGISLATIVE DIRECTOR, UNITED STATES STUDENT ASSOCIATION

Mr. Chairman and members of the Subcommittee, I would like to thank you for the opportunity to be here today. As you know my name is Joel Packer and I am Legislative Director of the United States Student Association (USSA). I testified before this Subcommittee on May 30, 1979 on the topic of student loans and I refer you to that statement for detailed information regarding USSA's positions on this subject.

With regard to the Administration proposal for reauthorization of the student loan programs, we do not support it. We have major philosophical and practical problems with their proposal. In particular the large shift in costs from the government to the student and his/her family that will result from the huge jump in interest rates causes us to oppose this and similar legislation. The elimination of the in-school interest subsidy for graduate students in both the Basic and Supplemental programs and for undergrads in the Supplemental program further exacerbate this shift, not just in costs but in Federal policy toward financing higher education.

The Administration talks about guaranteeing availability to loan capital. They say that the existing Guaranteed Student Loan program (GSL) does not provide sufficient capital. However, figures obtained from the Office of Education show an increase of 46.1 percent in loan volume in GSL between the first two quarters of fiscal year 1978 and fiscal year 1979. The volume of loans in the State agency component jumped from $466 million to $681 million. As the testimony of NCHELP states 40 States now have functioning State agencies and that even new ones have attracted substantial numbers of banks. The Administration is proposing to throw out a program that can work for one that may not work.

Turning to specifics, we find the interest rates unacceptable. Current rates are 3 percent for NDSL and 7 percent for GSL, with all interest paid while the student is in school. The new plan would see interest rise from 3 percent to 7 percent for the need-based program, and from 7 percent to Treasury bill plus one percent (approximately 10¼ percent). No interest subsidy would exist for the Supplemental program.

We believe that a low rate of interest for NDSL is justified. This is a program for needy students and the low interest rates are in effect a direct subsidy to them. Raising the rate from 3 percent to 7 percent would have a substantial detrimental impact on needy student. For a $5,000 loan paid over a ten-year period this increase in interest would add almost $1,200 to the student's repayment. If the amount borrowed were $10,000 the increased burden to the student would be $2,400. We believe that this represents a substantial shift to the student and one that should be rejected.

Graduate students are doubly hit by removal of the in-school interest subsidy. If they borrow $1,500 a year for four years their repayment would increase by almost $2,300 due to the loss of subsidy. Couple this with the higher interest rate and we have staggering debts thrown on students backs.

The worst is yet to come. The Supplemental program would not have an in-school subsidy for anyone and would make interest T-bill plus one percent. Last year Congress passed the Middle Income Student Assistance Act which extended the interest subsidy to all families without regard to income. Now the Administration suggests not only that we take this away but that the interest go from 7 percent to 10, 11 percent. These people will be worse off than they were before MISAA. Do we really have to take two steps backward for every one we take forward?

Costs to the Government in GSL subsidies are very high now because of current high market interest rates. Hopefully these rates will start coming down and government costs will drop. In the interim it seems that students are less capable of bearing the burden than the Government.

Of course some will say that the student benefits from the education, and therefore he/she should pay for it through loans at market rates. This runs counter to the entire history of financing higher education which is predicated on the fact that graduates will earn higher incomes and pay back any support they received from the Government through tax payments.

The testimony of NASFAA gives additional examples of the adverse effects that students will be faced with if these higher interest rates go into effect. USSA urges you to reject these changes.

In terms of structural changes the Administration wants to create a loan entitlement, with funding to meet need of students coming directly from the Federal government. According to the legislation they have sent to you this would be accomplished through direct appropriations, borrowing from the Federal Financing Bank which would also be subject to appropriations approval and existing NDSL revolving funds. How the mix between these programs is to be determined is unclear. What is clear is that this Basic Loan program will be financed primarily through on-budget appropriations and borrowing. The total of this national loan program and the interest subsidies and default claims in the Supplemental program will be far greater than the on-budget costs associated with GSL and NDSL now.

The budget pressures created by this will likely result in difficulty in obtaining increases in grant and work programs. Mr. Chairman you stated at a SLMA symposium last year that we must guard against an excess of easy student credit which leaves students with "an oppressive repayment burden when they leave." You went on to say that we must strike a delicate balance between assuring adequate credit is available but not making it so easy so that we discourage funding the grant and work programs. USSA strongly agrees with this statement. We find the Administration tilting too far in the direction of easy unlimited credit. Maintaining NDSL and GSL with its emphasis on State agencies we believe would meet the delicate balance you envision.

The other concern that we have about this assured loan is that institutions will be tempted very strongly to raise tuition and other charges to capture these loan dollars. Since every needy student is entitled to their need-based loan, tuition will drive up need and capture more loan dollars. The result will again be students paying a higher cost to attend school. State legislatures will also see the opportunity to cut back on student grant programs and substitute these loan dollars.

So in this aspect of the proposal it appears that low-income students may suffer, as they will from the higher interest rates.

Another aspect of the plan that we strongly oppose is the $700 self-help requirement for eligibility for a Basic Loan. This makes no sense. A loan is self-help. To force needy students to either work or to take out a non-subsidized loan to get a need-based loan is twisted logic. Again the poor student would suffer. Currently he/she can get a 3 percent NDSL. Now he/she must get a 10-11 percent unsubsidized $700 loan in order to get a 7 percent loan. This procedure seems very unfair, since these needy students who supposedly are now shut out of the private money markets will be required to turn to the private money market.

Regarding the concept of the parent loan, we have concerns about this also. Data has shown that large percentages of the expected family contribution are never given. Under this proposal a family, the parent would borrow to make up part or all of the contribution. We wonder how many families will be willing to borrow at 10-11 percent when they were unwilling to contribute in the first place? Also, what is the estimate of bank participation in this program? While lending to parents may seem attractive to them, it is estimated that the average loan size will decrease. This could result in a lower net yield to the bank since their administrative costs will not decrease much for the smaller loan, but their interest payments will.

Another aspect of the plan we oppose is the complete exclusion of professional school students from the Basic Loan program. The Administration does not present a compelling argument for this. What are these students supposed to do. The effect will be to again penalize low-income students who desire to enter professions that are severely lacking in minority practitioners. The Administration is saying that since people in these professions, medicine, law and business, earn large salaries on average, the student should pay high interest rates since she/he will earn a large salary. But the large debts that students will be forced to incur will preclude them from doing public-interest type service. Instead of becoming a general practitioner in an inner city, the medical student will become a surgeon. The law school student will turn to corporate law instead of community legal service work. A self-fulfilling prophecy is created.

Another proposal that we have concerns with is the proposed abolition of the NDSL teacher cancellations. While it is true that the demand for new teachers is far less that when this provision was enacted, there are still disadvantaged areas in need of teachers. The ramifications of abolishing this aspect of the current program should be carefully examined.

The Administration in another part of their proposal recommends shortening the grace period between when a student leaves school and when loan repayment starts from the current nine months to four months. USSA sees no need for this change. Many students after leaving school in late spring do not even begin looking for employment until late summer/early fall. It is understandable that after four years of college an individual may want a few months to rest before starting work. The four month grace period would require students to start repayment either after they have just started working or shortly beforehand. This is unreasonable and will increase defaults as many people simply won't be able to start repayment. We urge retainment of the nine month grace period.

One of the areas that we have questions about is that of repayment. The Administration testimony talks about graduated repayment and consolidation of multiple loans, yet the actual legislation is a bit vague on this. In fact it seems to only allow consolidation of Basic Loans and not a Basic Loan with a Supplemental Loan. Perhaps the Administration can clear this point up here.

We believe that options should exist, at the borrower's request to refinance a loan so that payments could be made on a graduated or variable schedule, rather than the current fixed repayment schedule. We also believe that students with multiple loans should be able to have them all consolidated so that only one payment per month is necessary on reasonable terms. USSA submitted to you language for a State Refinancing Authority that was developed by the Oregon Student Lobby. This would allow a State agency to perform these functions. For students who move between States, SLMA could take over this responsibility.

Another question that needs to be answered is how the proposed phase in of the Basic Loan program would work. Does NDSL gradually phase out as Basic starts up? Or does the Basic Loan program only meet a certain percentage of need until fully implemented?

One last area I want to comment on is that of counseling. We believe that the best place to prevent a default is the day the loan is made. A student, particularly one who has no prior experience with loans, must be completely and thoroughly informed of what his/her responsibilities are. She/he must be given not just written material, but counseling. The student must be given detailed information about what their total repayments would be, and what options they have for deferment, cancellation, or special repayment options.

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USSA strongly recommends that these provisions be included in statute as requirements for participating educational institutions. This should be done whether or not the Administration proposal takes effect.

Mr Chairman, it is worth noting that at the previous hearings you had on student loans many higher education associations, including ACE, NAICU, NCHELP, COPUS, and others all urged no nationalization of the loan program. They all urged not taking the entire structure built up since 1958 and tossing it out the window. USSA concurs with this position. We urge rejection of the Administration's plan.

In closing, I thank you again for the opportunity to be here and would be happy to answer any questions.

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In closing, I thank you again for the opportunity to be here and would be happy to answer any questions.

Mr. BAILEY. Thank you, Mr. Packer.

Mr. Helge Holst.

STATEMENT OF HELGE HOLST, PRESIDENT OF THE NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS AND REPRESENTING THE MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORP.

Mr. HOLST. Even though I am listed as representing the Massachusetts Higher Education Assistance Corp., I am president of and speaking for the National Council of Higher Education Loan Programs.

I am not the only one from that association that is present. The State of New York and its agency is represented by Eileen Dickinson, Pennsylvania by Jay Evans, and Virginia by Jane Chittom and

Georgia by Donald Payton. Paul Borden represents Kentucky. In other words, we all take the proposals seriously and are prepared to work with this committee at any time, not only when testifying but at other times as well.

During the last several months, and especially more recently, as it has become apparent that we would be given a chance to speak for the council, I have been seriously concerned at what appears to me to be a failure of communication. Many things are being said which I think do not make distinctions that are vital to a proper understanding of the loan programs.

Even today the Office of Education is speaking as though there are only two loan programs, a federally funded national direct student loan program and then a single guaranteed student loan program funded by the private sector. This not in fact so. There are at least two guaranteed student loan programs which are in operation concurrently—the federally insured FISL program and the guaranty agency insured program or GSLP.

It is true that both insured programs are funded privately and both of them are guaranteed. But there the similarity ends. The FISL program is an entirely different operation statutorily, in regulation and in practice, from the second guaranteed student program which we practitioners understand by the guaranteed student loan program, which is funded by banks but is guaranteed by individual guarantee agencies. In particular the GSLP, as we practice it, is locally administered in a close and personal way which has been both productive of loans and also has produced very satisfactory loss experience.

A failure to recognize the distinction between these two types of guaranteed student loan programs, and lumping them together, is confusing many issues. This is because adequacy and access are different in the States where there are local guarantee agencies, as you will hear today, from the areas in which the program has been federally and centrally administered.

I believe that this distinction between FISL and locally administered GSLP should be brought out in the discussion.

I understand that the committee is also concerned with possible simplification and consolidation. Those are interesting subjects, but I do not believe that we should spend our time on debating them this morning because of the much greater current concern with the programs over which this committee has control. But if and when you reach the point of being concerned with consolidation you should know that there are eight federally supported loan programs in concurrent operation and there are four grant programs. It would appear that some consolidation and simplification should be possible both with regard to loans and grants.

I would rather address, and there will be others here who will be concerned with, the administration's proposals. These appear to us to fly in the face of experience. They are also directly contrary to the previous decisions of Congress. Basically the proposals which have been made to you for change suggest the formation of (1) a national student loan bank in one form or another, or (2) an agency to administer loans. They then downgrade the existing guaranteed student loan program which, as I have mentioned, is really two programs. The second of these is now producing about three-quarters of all the loans that are being obtained by students.

To seize upon the NDSL as a basis on which to build a major structure, it seems to me, is using the worst of loan experience during the past 13 years. It is the NDSL which has so far proven to be the weakest link in financial aid administration and I do not therefore understand why that is a logical foundation for a major new structure.

The administration itself has likewise said that the campus administration of loans would need supplementation in various ways. The administration therefore proposes to do this with a Federal agency. But the experience of the Federal agencies in administering the FISL program is not such as to warrant its use for the construction of a great new program based on combination of NDSL and a Federal agency.

We do believe that the NDSL program has served and continues to serve a desirable social purpose and that it should be continued. But it may require assistance in various ways to improve accountability and loan collection. The NDSL program is in being, has served a purpose, and does serve a purpose. With proper assistance it can properly constitute a significant part of the loan program. But by no means should it constitute the major part of the loan program.

Instead, it appears to us that the GSLP, guaranteed student loan program, as administered in a decentralized way, with local guarantee agencies and a close working relationship between those guarantee agencies and participating lenders, has been exceedingly productive.

Mr. BAILEY. Mr. Holst, let me interrupt you for just a minute. Let us recess the subcommittee for about 10 minutes. I will be right back.

[A brief recess was taken.]

Mr. FORD. Mr. Holst. Would you continue.

Mr. HOLST. Thank you, Mr. Chairman.

In your absence I pleaded that the committee members should recognize that much of the presentation and discussion before the committee has failed to make a distinction between the federally and centrally administered guaranteed student loans properly identified as FISL's and what we in the field call the GSLP—the decentralized locally administered guaranteeed loan program. I was about to point out that any shortages of availability of loans are attributable, I believe, to the FISL States and not to the GSLP States where the loan program it locally administered.

We have met and discussed loan availability and capital adequacy at length in the Office of Education with Mr. Kornfeld and others. When we have tried to find out where the weaknesses were in order to see where we could strengthen operations, after considerable hesitation, the only areas that were mentioned were Colorado and the District of Columbia.

Colorado has until recently been a FISL State. In other States which have been FISL States but which have now become GSLP, in the sense of decentralized loan administration, for example, Florida, Iowa, and Indiana, hundreds of banks have already joined up to support the GSLP program as long as it is locally administered.

So we believe that even newly created guarantee agencies will have the same kind of support which the older agencies have had. As you will recall this was demonstrated by Pennsylvania on behalf of NCHELP 3 or 4 weeks ago.

Consequently we believe that a well-established decentralized guarantee student loan program does in fact provide adequate capital and access with choice. This should be distinguished from any failures which may have haunted the FISL program, as in California where there is now a turnaround under a new GSLP agency.

We also believe, contrary to the administration's proposal, that Sallie Mae is in fact playing a very useful role. The functions that it has been called on to perform are relatively pioneering ones. They include using student loans as security and purchasing student loans in quantity.These are relatively new. We think that the SLMA Administration has assembled an unusually competent team and has gone about performing its functions in a careful and responsible way. But whatever may have been the momentum of the past, SLMA certainly is now operating on a large scale which is providing substantial liquidity to the program.

Under these conditions we plead with the committee not to destroy or disrupt what is now proving effective and replace it with a federalized and centralized operation which might well reflect the worst experience of the past. Rather we urge you to fine tune and improve what has already been demonstrated to be effective but can be made more so by careful collaborative effort.

We believe that as the American Bankers Association tells its story, which it will do, although it is not next on the program, it can corroborate or reply to questions on any aspects of loan operation which more properly lie in the realm of lender response than guarantor assertion.

Thank you, Mr. Chairman.

[The full statement of Helge Holst follows:]

Testimony of Helge Holst, President, National Council of Higher Education Loan Programs

EDUCATIONAL COSTS AND FINANCIAL AID NEED REVIEW

Post secondary education, and financial aid in support of such education, have become major components of American Life. Congressional action in support of education has a long and distinguished history. The Higher Education Act of 1965, with its several subtitles, has been a landmark of such legislation. Nevertheless, because so much and such varied additions have been made to educational legislation over the years, with resulting complexity, duplication, confusion and cost, it is desirable that there be a thorough review of experience and achievements before there is reauthorization through continuance or change.

SIMPLIFICATION AND CONSOLIDATION DESIRABLE

As recently as 1976, after a decade of operation under the Higher Education Act of 1965, Congress evaluated the results of loan operations which had proceeded in essentially three ways: (1) with federal funds under campus administration—National Direct Student Loans (NDSL); (2) with privately provided capital, but with centralized federal administration—Federally Insured Student Loans (FISL); and (3) through privately provided capital with decentralized, local administration—Guaranteed Student Loans (GSLP). By the Education Amendments of 1976 Congress directed that the third type of loan—made by commercial lenders and subject to decentralized administration—be encouraged and emphasized. Reauthorization now affords renewed focus for review.

Although financial aid properly consists of an appropriate "package" or "mix" of free and repayable assistance, only loan aid is here considered at length. Currently at least eight federal loan programs are in operation, four under the Office of Education—NDSL, FISL, GSLP and HEAL with the Veterans Administration, the Department of Justice and the National Institute of Health having additional programs. Surely some coordination, if not consolidation, should be possible. Additionally it would appear that the several forms of grant aid could well benefit from review, consolidation and simplification. Their administration, too, might be consolidated in ways which eliminate duplication and assure greater coordination with other forms and sources of student assistance.

PROPOSALS TO DATE WOULD NOT HELP

In response to its invitation the Subcommittee on Postsecondary Education has received many and varied suggestions for reenactment with and without changes. With regard to loans the most major such proposals have suggested (a) the creation of an independent national student loan bank (the Silber Tuition Advance Fund, TAF, and other plans); and (b) the reformation of the National Direct Student Loan; and (c) revision of the Guaranteed Student Loan Program into a Supplementary Student and Parent Loan Program.

ACCEPT GUIDANCE FROM EXPERIENCE TO DATE

As the Committee endeavors to develop coherent legislation from the welter of proposals and conflicting requests which have been presented to it, it would seem sensible for the Committee to consider the results of experience to date. It is clear that of the various types of loan programs which have had federal support the NDSL, which has been campus administered, has produced the worst experience as to administration and defaults. Indeed this has been recognized by the Office of Education and others and is summarized in the Administration's testimony, page 15:

"Our Basic Loan proposal will Federalize loan servicing and collections. Universities are not by temperament or by organization equipped to act as bill collectors and they should not be asked to divert precious resources to such efforts."

Second worse results have been experienced with the federally administered FISL program. Poor lender participation and default experience under such centralized administration has been in striking contrast to the good results obtained by the decentralized, locally-administered GSLP program. Both of these observations make it surprising, therefore, that suggestions would be made for building major new structures on the NDSL and its campus-based operation and enlarging the role to be played by a federal centralized administration. The requirements of daily operation are quite different from policy making. There is little reason to believe that a new, centralized, federal agency would avoid the shortcomings of prior federal experience. Moreover the costs in capital required, operating expense, and losses would be far greater than admitted.

In addition to being surprising the proposal for centralization of loan administration is not only directly contrary to the results of experience but it is clearly the opposite of the decision of Congress in the Education Amendments of 1976 which, after evaluating prior results, provided incentives for decentralization.

NATIONAL STUDENT LOAN BANK NOT NEEDED

The administration proposal and the Kennedy-Bellmon plan propose the formation of a new, centralized federal agency either to provide loans or to administer loans made under the reformed NDSL operation. It would appear that neither of these objectives is satisfactory reason for the creation of such a federal agency and centralized operation. Nor is there demonstrated need for the federal government to take on the expense of such an organization when the private sector will provide the support required.

The response of commercial lenders to the needs of students, where properly promoted both before and since the enactment of the Education Amendments of 1976, has been magnificent. It is the GSLP which has in fact provided the great majority of loans to students. Commercial lenders have to date provided a total under FISL and GSLP of approximately $15 billion. Since the incentives provided by the Education Amendments of 1976, and as a result of the revised special allowance formula, the support provided students and schools by the GSLP has increased by extraordinary leaps and bounds. Already established guarantee agencies have pointed out to lenders the advantages of GSLP loans. In consequence increases of 40–100 percent participation are being experienced. Even in states where the creation of GSLP guarantee agencies is only a few months old, such as Iowa, Florida, and

Indiana, the numbers of banks which have enlisted are in the hundreds. For example in Iowa to date 525 lenders are participating. Clearly, therefore, lender participation is not lacking where there is local assistance and administration and their support can meet legitimate proper need.

To date guarantee agencies exist in 40 states, an increase of 16 since the passage of the Education Amendments of 1976. Before long every state will have its own agency or the benefit of local administration through a guarantor authorized to operate in more than one state. Where these agencies are already in operation they have received the same types of lender participation as in the older guarantee agency states. Since as small a percentage of loanable assets of one-half of 1 percent will adequately meet the need for student loans there is no lack of capital with which to fund GSLPs, provided they are locally and effectively administered. Moreover lenders of last resort in various states have agreed to assist students from areas which are unable to support their own residents.

NDSL CONTINUANCE WITH MODIFICATION

Because of the social commitments to students and schools which have accompanied the creation of the NDSL program and the problems which might be inherent in its rapid replacement, the NCHELP favors the retention of this program but with strengthening modifications. Weaknesses in administration which have produced lack of proper accountability and loan repayment must be rectified. Collection assistance may be required. But this should not take the form of allowing schools to make loans for which they will not be responsible because administration will be passed to another organization. Such operation is doomed from the outset.

STUDENT LOAN MARKETING ASSOCIATION AND ASSURANCE OF LIQUIDITY AND SUPPORT

The Student Loan Marketing Association (SLMA) was created by Congress to facilitate the operation of the loan program. This would be accomplished by SLMA assistance to lenders. The type of liquidity to be provided through loans by SLMA (warehousing) or purchase of student loan portfolios was a new and pioneering effort. SLMA administration has been responsible and creative. SLMA is now aggressively seeking to assist lenders through lending of funds or purchase of portfolios and the provision of responsible loan servicing. Its operation from a careful beginning has continuously increased in momentum. It is providing substantial assistance to an increasing number of lenders and thereby facilitating their continued large scale support of the GSLP. SLMA should be continued with only such evolutionary changes as are necessary to assist it in performing its functions.

DEVELOPMENT AND FINE TUNING NOT START OVER AGAIN

Certain existing elements of the aid programs established by the Higher Education Act of 1965 have had considerable success. NCHELP, in common with lenders and most of the schools affected, has, therefore, recommended that those portions be continued with only evolutionary development and fine tuning. This is far more likely to serve the needs of students and schools than the total disruption caused by a new start of major untried programs. Even some months of chaos or non-function would be fatal to many schools and might well irreparably damage the education of thousands of students. NCHELP, therefore urges careful and constructive improvement of those elements of the NDSL and GSLP which have demonstrated their worth with such evolution and improvement as is clearly indicated in the light of continuing experience.

Mr. FORD. Thank you.

STATEMENT OF EDWARD FOX, PRESIDENT OF STUDENT LOAN MARKETING ASSOCIATION

Mr. FOX. We don't have a prepared statement to give you today, but it will be forthcoming for the record in a week or two. Before I get into comments about the administration proposal I would like to take the opportunity to thank the chairman for the leadership in the support of H.R. 4476. The Federal Reserve has clearly tightened interest rates and there is going to be a lack of availability of credit in the coming months just at a point in time when hundreds of thousands, if not millions, of students will be looking for student loans.

Everybody in this room joins me in thanking you for your sponsorship and leadership for this legislation. Thanks again.

I will try to be brief because many of the things that I will say will be repeated by just about everybody at this table.

As we look at the administration's proposal we feel that it stands on the premise that there are a significant number of students who do not have access to loan funds. Yet, when we examine the material that has been prepared for this committee by OE, it suggests that they don't anticipate any significant increase in lending under the new programs against current levels under the existing programs.

As a matter of fact, using Kurt Kendis' work at the University of Pennsylvania, we think there will be demands for $4 or $5 billion for student borrowing in the existing program in the next year or two. We think the existing program is reaching out, thanks to the 1976 and 1978 amendments, to meet that demand.

The OE material which we had not seen until this morning would suggest, under the new program that the administration has proposed, something equal to or less than what is currently available will be lent in the coming years.

We look at programs in a number of ways—first in terms of administration from the point of view of the banker. I think it is going to be incredibly more complex for a banker to administer the proposed GSL program than the old one. For example, under the current program the payment of a variable rate is undertaken by the Government. Banks bill the Government quarterly for a single payment of earned interest determined under a variable formula. Under the new loan the variable payment is made by the student. That means that there has to be increased communication with the student to clarify the amount due or credited from each payment. Receipts whether monthly or quarterly will be allocated to principal or interest depending on the current quarter's interest rates. This will make it a much more costly and difficult program to administer for the lending institution. In addition, charging interest to the student while in school will also increase cost because it is currently a much simpler program to administer with interest coming directly from the Government in a single check. It is clear to us, in terms of pure administration, that the new program would add to the cost of the banking system and make lending less attractive.

Secondly, I would like to talk about loan consolidation. One of the things we have been hearing is the need for the student to be able to consolidate the indebtedness from more than one program so that there is a simplification and a reduction in payment for the student. These two programs will have different interest rates; one will be variable and one will not be. There are different sources of funds in terms of the repayment, in terms of the interest payments. It will be ungodly to consolidate those kinds of loans with those complex and different types of terms. If the intention is to try to give consolidation opportunity to the student, I don't believe these two programs will do that at all. Quite to the contrary.

We look at cost. There are literally an infinite number of ways in which you can analyze cost. Interest rates can move up or down, consideration must be given to future inflation rates, the exact number of students that will be borrowing are unknown and the future amount of interest subsidies are dependent on these unknowns. Given our best estimate, we don't see where these new programs will reduce the total cost of administration and subsidy to the Federal Government.

As a matter of fact, they could be more costly and as we talk with others who are doing the costing we find the possibility exists, particularly if much of this is on budget, that you could be adding millions or billions of dollars to the cost of the Federal Government over time.

Why change the programs? Well, I don't see the reason at this point in time. I think your existing programs are doing very, very well. Your 1976 and 1978 amendments seem to be working. Volume is moving up dramatically this year, perhaps 40 or 50 percent. The average loan size is up as the students have learned how to use the program and as they are borrowing to meet the increasing cost of education.

Thanks to the 1976 amendments the banking and lending institutions have better underwriting standards under which to operate and they are making better loans. That means reduced defaults in the future. Thanks to the work of the Office of Education in the last year the default expense has been improving dramatically. Not only are they collecting more money, but there is a credibility to the effort that is beginning to get through to the students.

I think the students out there are not going to default by neglect or from the feeling they can get away with it. I think there is an attitudinal shift on the part of the students. I think that will mean lesser Federal cost in terms of defaults in the future from the existing programs.

In addition the States are performing the functions that you intended them to perform. In every State where a program has been put into being it is reaching out doing its job, providing localized administration of service. There has been an incredible improvement in the amount of loans being made both in numbers and dollars. Institutions in the past were not as willing to be in the program or, if dropped out, are coming back in. I think you are seeing for the first time an increase in the number of institutions willing to participate in this program under local administration.

Sallie Mae is providing the capital to meet the cyclical demand that is being generated in an environment where funds are tight. Sallie Mae is meeting geographic needs.

The only study I have seen about the inability of students to obtain capital didn't deal so much with whether they were poor or minority or women. It had more to do with geographic shortages of funds in such areas as the District of Columbia, California, perhaps Colorado.

Sallie Mae has put together a very dramatic and dynamic program in the District of Columbia once we got the cooperation of the Federal and State people, in this case, city people and the banks.

There will be $15 or $20 billion being lent in the District of Columbia this year once the problems are cured and all the participants are willing to get together. That geographic need has been filled. I don't mean to deny there might be areas where the poor, minorities, and women are excluded from the program. Data a couple of years ago suggested that the program at that time was geared more to the low-income people than the middle-income people since banks were unwilling to make the unsubsidized loans.

There seems to be adequate data for doing this kind of analysis availability in any case. The studies that came out of the Office of Education indicated perhaps a 10-percent shortfall a year ago and I think that most of that is being filled with geographically designed programs in the District, in Colorado, and in California.

I would like to get to one last point and then move on. It has to do with the comments that are constantly being made about Sallie Mae, its performance, whom it does business with, and the like.

The record has been corrected four times now following public comment or testimony before this committee by representatives of either HEW or OE who appeared before you or made comments publicly about our performance, our ability to meet the needs of our constituents, how we raise our funds, the meaning of our profitability, or things of that sort. Time after time the record has had to be corrected.

I would like to state now that Sallie Mae has reached out all over this country to a very large and significant number of constituents, larger perhaps than any other secondary market that is operating for the Federal Government right now. We have twice as many commercial banks with whom we are doing business than any housing-related secondary market.

You can add all of the secondary markets together in housing and you will find that we have provided twice as much in the way of market support, 14 percent of outstanding program assets as compared to 7 percent, and we have only been in business for 5 years. How we are being measured and under what standard we are being measured by the Office of Education and HEW I do not know. By any logical measurement we have reached out and done the job. I will submit for the record a point-by-point refutation of all the comments that have been made about Sallie Mae in terms of whom we do business with, the number of participating institutions, the fact we do business with small institutions, the fact that we have been willing to step out and provide service in high-risk, high-default areas.

As a matter of fact, those institutions seem to be more attracted to Sallie Mae rather than to the low-default, low-risk institutions.

I will provide information on every one of those points as we have done in the past, as we have done for the Secretary and the Undersecretary in the past, and as we provided to all our constituents.

Finally as to the recommendations pertinent to Sallie Mae, it has been suggested that Sallie Mae should be phased out and that it should be put under HEW control or a new agency should be created to put under the control of the Office of Education.

I think the record will show that the only thing that would be accomplished by doing that is not improvement in the program, not access to a greater number of institutions, but just control of Sallie Mae by the Office of Education. I don't believe the Office of Education has the capacity to make a multibillion-dollar banking institution. That is what you are asking these people to undertake.

They are asking you to allow them to take the place of banking institutions and Sallie Mae and become loan guarantors, originators, subsidizers, administrators and a full time collector in these programs. I find no capacity existing nor do I think they can in the future create a multibillion-dollar banking institution to provide better service and support for this program than is currently provided. I think it is illogical. I think lenders and Sallie Mae are providing reasonable and cost effective service. I don't think by putting this under OE you are going to get better service.

I would like to suggest perhaps two things that Sallie Mae might be able to do that would be supportive of the existing programs with modest changes.

Sallie Mae was given a very limited franchise originally. It was told to provide liquidity for lenders within the program. We were not asked to be the owner of all the loans in the program. We were just one of many tools to provide credit and liquidity to lenders within the program. I think we have demonstrated that we can do that. We think that in the 6 years since you created us that times have changed, that markets have changed, that access capital has changed. It would not be inappropriate to change Sallie Mae's character and expand what it can do in support of the existing programs.

For example, there is no reason why we could not do something like we did in the District of Columbia on a simpler and broader basis. If a jurisdiction, a State jurisdiction, had inadequate capital in some geographic area and if with the concurrence of the State and the Federal Government Sallie Mae were to be invited in to be a primary lender, we think we could replicate what we did in the District of Columbia but only if all parties agree this would be an appropriate alternative vehicle and Sallie Mae was an appropriate entity to do it.

We are doing it now as a secondary market by obtaining a commitment to get a third-party lender to come in as an intermediary. In the District of Columbia it was easier because it is small, but larger areas would be difficult under our current limitations. I think that is one direction in which Sallie Mae can offer service.

We have a lot of learning and understanding of the administrative process. If it is of interest to the committee I think it would be useful for Sallie Mae to have that kind of authority. I think we could expand the existing programs where necessary and meet the limited unfulfilled demand that apparently is out there.

We think we can accomplish that without a massive change in the programs.

The last point I would like to make is that everybody has talked about loan consolidation for students. I don't see anything in any of these proposals that will address that in a way that makes sense. Perhaps Sallie Mae or banks might be authorized to make consolidation loans whereby if the students desired they could come to a financial institution or Sallie Mae and say:

> I have $5,000 of indebtedness. I have more than one program lender. Will you make me a loan that pays off these existing loans, a loan that is perhaps a liquidiating GSL loan and I will work out a single repayment scheme with you. I will have only one institution with which to deal and only one payment with which to deal.

For once you will have an instrument where a student could find some means to get a simplified and less costly means of repaying this proliferation of debt programs. These are the kinds of initiatives that I think can be taken by the committee that can enhance the program without traumatic change and I think will be a useful way of providing additional service to the lenders and to the students.

A final comment. Last night reading on the plane I saw a comment that was attributed to the late Speaker, Sam Rayburn. He said, "If it ain't broke, don't fix it." I think that applies here, Mr. Chairman.

Thank you for the opportunity to testify this morning.

Mr. FORD. Mr. Martin.

STATEMENT OF DALLAS MARTIN, EXECUTIVE DIRECTOR OF THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. MARTIN. Let me thank the chairman and Mr. Buchanan for the leadership that they have given in resolving the technical amendments and also to compliment the subcommittee on the manner in which they have allowed various representatives to meet and to have the opportunity for exchanging with representatives from the administration on these proposals.

It is a pleasure for me to identify myself today with the remarks that have been made by Mr. Holst, Mr. Packer, and Mr. Fox.

As you know, Mr. Chairman, the student loan programs have been the subject of much debate in the past several months and, unfortunately, many of the facts and significant features of the programs have been distorted, misreported, and taken out of context. Consequently, persons not familiar with the detailed operations of these programs are often led to believe that the existing student loan programs, specifically NDSL and GSL, are not working and therefore should be substantially modified or replaced by new approaches and new mechanisms. Obviously, from the proposals advanced, the administration is also of the opinion that a complete overhaul is needed.

It appears to us that in general the administration has recommended the elimination of the NDSL program, changed the GSL program to be the new basic loan program, and replaced the GSL program with a new supplemental loan program that seems tailored after the HEAL program which is currently funding medical and health profession students.

These proposals are advanced by the administration as necessary to insure adequate capital availability, reduce governmental costs, improve collections, and reduce defaults. However we question whether any of these objectives will be achieved under the administration's proposals. In fact, we suggest that with slight legislative modifications, timely administrative support from the Office of Education, and insured program stability, two of the administration's objectives could be achieved.

The third objective which the administration purports to resolve is to reduce governmental outlays for the loan programs. Unfortunately, the suggested approach would simply transfer the costs

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from the Federal Government to the individual student and his or her family.

In addition, Mr. Chairman, we are very concerned about the impact these proposals will have on students. The administration would ask students and their parents to pay a substantial rate of interest in order to receive a supplemental loan. The Middle Income Student Assistance Act was specifically intended to help middle-income families by removing the income limit in order for a student to qualify for interest benefits. The administration's proposal would take away this benefit recently enacted by Congress.

Let us look at some examples of how the administration's proposals would affect students. A student from a low-income family may be affected in two ways. First the $700 self-help requirement may not be available since many students from such families are unable to find employment or must devote all their time to their studies. While provisions would be made to waive the self-help requirement, it could impose a barrier to the neediest students. Second, these students would pay 7 percent interest rather than 3 percent as is currently the situation in the NDSL program. If a student were to borrow $5,000, the total interest paid by the student would increase from $768.80 to $1,712.81, an increase of $944.01.

As Mr. Packer points out, a student who in some cases is unable to find a job would be required to perhaps go out and borrow the $700 self-help requirement from the supplemental loan program before he or she could qualify for the needs-based program which is designed to assist him.

Students from moderate income families would be even more seriously affected. While they are generally eligible for a basic grant to cover part of their educational costs, many still find it necessary to borrow to help meet the expected parental contribution.

Currently, the interest on these loans, GSL, is paid while the student is in school and the student pays 7 percent interest during repayment.

Under the administration's proposal, these students would pay interest at the Treasury bill rate plus 1 percent, or approximately 11 or 10½ percent at the current rate. Thus, a student borrowing $2,500 for each of his other 4 years in school would incur approximately $2,750 in interest costs while attending school. An amount, I might add, which is currently paid by the Government. This interest could either be deferred until the repayment period or the loan increased to cover the interest costs.

Thus, the needy student has to incur an increased cost of $2,750 while in school in order to obtain his or her education, assuming they have funds available to pay the interest while in school. If not, the interest is deferred thus increasing even more the costs to the student.

Students from upper middle income families who generally do not qualify for a basic grant or other Federal assistance, unless they attend a high-cost institution, currently rely almost entirely on the guaranteed student loan program.

Under the administration's proposal, such students and their families would have to pay interest on the loan from the day the promissory note is signed.

Therefore, these students would lose the benefits they recently received under the Middle Income Student Assistance Act. In fact, they would be worse off, as Mr. Packer pointed out, than before MISAA, since the interest rate under the supplemental loan program would be approximately 11 percent, assuming the current Treasury bill rate, rather than 7 percent.

Thus, these students are significantly affected by these proposals. In fact, a student who borrows $2,500 per year to replace their family contribution, would be forced to pay $2,211.88 more than under the current law during the repayment period.

Further, graduate students enrolled in health professions, business, or law are currently eligible to participate in both NDSL and GSL. Under the administration's bill, they would be adversely affected. In fact, they would be excluded from the basic loan proposal entirely. Under the administration's plan, they could borrow funds, but only under the supplemental loan program which requires a higher interest rate.

While it is true that the administration's plan would reduce the costs which the Government is currently paying for the loan programs, they would be doing so at the expense of parents and students.

Further I would like to remind the administration that less than 1 year ago we were faced with the choice between tuition tax credits or increased student aid in order to respond to the plea from the middle-income families having difficulty meeting the costs associated with paying for their children's postsecondary education.

At that time this Congress and the administration chose to support the Middle Income Student Assistance Act. One reason for this was that in the long run, such outlays would be less costly and manageable since they are governed by appropriations and are on budget.

In addition, the increased student aid dollars directed the majority of the dollars to students with the great financial need. If my memory serves me correctly, it was anticipated at that time that the tuition tax credit legislation would grow to approximately $4 to $6 billion in annual outlays.

At that time, the administration was more than willing to support and subsequently to sign the Middle Income Student Assistance Act. Now we find ourselves less than 1 year away from the enactment of this legislation and faced with the same administration now concerned about the growth in the very program which was designed to assist middle-income families.

Mr. Chairman, I am sorry if I sound too critical, but, unfortunately, this is not an issue we view lightly in light of the past efforts.

We also encourage this committee to examine carefully who can best administer student loan programs. Will the performance under a federalization of loan servicing and collection really be better than the performance by institutions or State agencies? The current administration has made positive moves and we compliment them for that, to bring the default rate under control in the federally insured student loan program.

However several previous administrations ignored the problem of loan defaults, thereby creating today's high default rate. With proper Federal management at the outset, we would not be in the situation that exists today. Can we be sure that future administrations will be equally committed to the task of collecting loans? We would hope so but there is no guarantee.

States which administer their own guaranteed student loan programs have demonstrated their ability to effectively manage such programs as is evidenced by the significantly lower default rates in that program.

We recognize that some institutions have not properly managed their NDSL funds. However the Federal Government has to share in the blame for this poor management. Until recently, institutions received only minimal help from the Federal Government in their collection efforts. Often, regulations are years late in being published. It took over 2 years to implement the 1976 amendments permitting institutions to turn over defaulted national direct student loans to the Office of Education.

Further we are still awaiting the tool most needed to assist institutions in their collection efforts, the reinstatement of the IRS skip-tracing procedures.

On the other hand, the administration understands that many of our institutions would be delighted to get out of the collection business, since they believe their resources could be used in other ways. Unfortunately, it is again a mistake to assume that this is the case for all schools.

In fact we believe that institutions can effectively collect student loans provided they take their collection responsibilities seriously. The administration would lead us to believe that such is not the case. However, unfortunately, their own data does not substantiate this line of reasoning. We have information based on OE's own loan data which shows that institutions which collect their own notes have a lower average default rate than those which utilize outside servicing. We think that if institutions have no responsibility for collecting their loans, they may in fact neglect their duties, thus only contributing to an even higher default rate.

This information has not been released publicly and perhaps you would like to ask the Office of Education to provide you supplemental data from the recent FISL file on those that do their own collection, some preliminary results we have seen would show that 4-year public institutions that do all their own have an average default rate of 12 percent, those that are doing it outside have a rate of 23 percent.

For your private institutions the average is 13 percent whereas those using outside service it is 18 percent and so on and so forth by each of the sectors.

In summary we feel that it is very important that the institutions be involved in the responsibility of managing these funds. The loan portion of the administration's proposal needs close scrutiny to determine whether federalizing the loan servicing and collections is the best approach to administer these programs.

Mr. Chairman, in the interest of time, let me quickly mention several other items contained in the administration's proposal to which we object. The administration would reduce the current 9-month grace period to 4 months. We object to this on the basis that students need time after completing their education to locate a job and get settled in a new living environment before beginning to repay their loan obligations. The 9-month grace period has served us well and is not an unreasonable period of time. We also would suggest that the cumulative maximum in the basic loan program be increased to $15,000 since the annual maximum proposed is $3,750. The $12,500 maximum they propose only depresses the annual amount and is unnecessary. How it was arrived at is unbeknownst to me.

We also take exception to the administration's characterization of the role that Sallie Mae has played. If one reviews the legislative statutes and charges of this corporation we think that Sallie Mae has successfully fulfilled their role. If it is the desire of this subcommittee to change the role of Sallie Mae, this can be done by modifying the existing statutes rather than establishing a new, unproven association.

Finally, Mr. Chairman, we wish to make one other point. The administration's proposal would transfer institution's collections on their existing NDSL accounts to the basic loan program. This would mean that many institutions could potentially be giving up more dollars than they would receive under the allocation scheme proposed by the administration.

Since the administration's proposal is subject to annual appropriations, there is no assurance that loan capital will be more available. In fact, the administration's proposal, unlike the Kennedy/Bellmon proposal, which you will hear more on tomorrow, is a hollow promise that does not provide the American people with an increased assurance of loan availability.

In closing, Mr. Chairman, I am sure you have noted that we are less than enamored with the administration's loan proposal. Considering the testimony which has been presented to this subcommittee to date, it appears that students, institutions, State agencies, and the American people would be better served if we allow the existing programs to develop, mature, and be refined in accordance with the recommendations suggested by the majority of witnesses who have appeared before this subcommittee.

Thank you, Mr. Chairman, for the pleasure of being here. I will be happy to answer any questions that this committee may have later in this hearing.

[Prepared statement of Dallas Martin follows:]

TESTIMONY BY DALLAS MARTIN, EXECUTIVE DIRECTOR, THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman and members of the Subcommittee, it is indeed a pleasure to have the opportunity to appear before you today to discuss the Administration's proposals to modify the student loan programs.

As you know, the student loan programs have been the subject of much debate in the past several months, and, unfortunately, many of the facts and significant features of the programs have been distorted, misreported, and taken out of context. Consequently, persons not familiar with the detailed operations of these programs are often led to believe that the existing student loan programs, specifically NDSL and GSL, are not working and, therefore, should be substantially modified or replaced by new approaches and new mechanisms. Obviously, from the proposals advanced, the Administration is also of the opinion that a complete overhaul is needed.

It appears to us that, in general, the Administration has eliminated the NDSL program, changed the GSL program to be the new "basic loan" program, and replaced the GSL program with a new "supplemental loan" program that seems tailored after the HEAL program which is currently funding medical and health profession students.

These proposals are advanced by the Administration as necessary to insure adequate capital availability, reduce governmental costs, improve collections and reduce defaults. However we question whether any of these objectives will be achieved under the Administration's proposals. In fact, we suggest that with slight legislative modifications, timely administrative support from the Office of Education, and insured program stability, two of the Administration's objectives could be achieved.

The third objective which the Administration purports to resolve is to reduce governmental outlays for the loan programs. Unfortunately, the suggested approach would simply transfer the costs from the federal government to the individual student and his/her family.

In addition, Mr. Chairman, we are very concerned about the impact these proposals will have on students. The Administration would ask students and their parents to pay a substantial rate of interest in order to receive a supplemental loan. The Middle Income Student Assistance Act was specifically intended to help middle-income families by removing the income limit in order for a student to qualify for interest benefits. The Administration's proposal would take away this benefit recently enacted by Congress.

Let us look at some examples of how the Administration's proposals would affect students. A student from a low-income family may be affected in two ways. First the $700 self-help requirement may not be available since many students from such families are unable to find employment or must devote all their time to their studies. While provisions would be made to waive the self-help requirement, it could impose a barrier to the neediest students. Second, these students would pay 7 percent interest rather than 3 percent as is currently the situation in the NDSL program. If a student were to borrow $5,000, the total interest paid by the student would increase from $768.80 to $1,712.81, an increase of $944.01.

Students from moderate income families would be even more seriously affected. While they are generally eligible for a Basic Grant to cover part of their educational costs, many still find it necessary to borrow to help meet the expected parental contribution. Currently, the interest on these loans (GSL) is paid while the student is in school and the student pays 7 percent interest during repayment. Under the Administration's proposal, these students would pay interest at the Treasury bill rate plus 1 percent, or approximately 11 percent at the current rate. Thus, a student borrowing $2,500 for each of his/her four years in school would incur approximately $2,750 in interest costs while attending school. An amount, I might add, which is currently paid by the government. This interest could either be deferred until the repayment period or the loan increased to cover the interest costs. Thus, the needy student has to incur an increased cost of $2,750 while in school in order to obtain his/her education, assuming they have funds available to pay the interest while in school. If not, the interest is deferred thus increasing even more the costs to the student.

Students from upper middle income families who generally do not qualify for a Basic Grant or other federal assistance, unless they attend a high cost institution, currently rely almost entirely on the Guaranteed Student Loan Program. Under the Administration's proposal, such students and their families would have to pay interest on the loan from the day the promissory note is signed. Therefore, these students would lose the benefits they recently received under the Middle Income Student Assistance Act. In fact, they would be worse off than before MISAA since the interest rate under the supplemental loan program would be approximately 11 percent (assuming the current Treasury bill rate) rather than 7 percent. Thus, these students are significantly affected by these proposals. In fact, a student who borrows $2,500 per year to replace their family contribution, would be forced to pay $2,211.88 more than under the current law during the repayment period.

Further, graduate students enrolled in health professions, business or law are currently eligible to participate in both NDSL and GSL. Under the Administration's bill they would be adversely affected. In fact, they would be excluded from the Basic Loan proposal entirely. Under the Administration's plan, they could borrow funds, but only under the supplemental loan program which requires a higher interest rate.

While it is true that the Administration's plan would reduce the costs which the government is currently paying for the loan programs, they would be doing so at the expense of parents and students. Further, I would like to remind the Administration that less than one year ago we were faced with the choice between tuition tax credits or increased student aid in order to respond to the plea from the middle-income families having difficulty meeting the costs associated with paying for their children's postsecondary education. At that time, this Congress and the Administration chose to support the Middle Income Student Assistance Act. One reason for this was that in the long run, such outlays would be less costly and manageable since they are on budget. In addition, the increased student aid dollars directed the majority of the dollars to students with the greatest financial need. If my memory serves me correctly, it was anticipated at that time that the tuition tax credit legislation would grow to approximately four to six billion dollars in annual outlays. At that time, the Administration was more than willing to support, and subsequently to sign, the Middle Income Student Assistance Act. Now, we find ourselves less than one year away from the enactment of this legislation and faced with the same administration now concerned about the growth in the very program which was designed to assist middle-income families. Mr. Chairman, I am sorry if I sound too critical, but unfortunately this is not an issue we view lightly.

We also encourage this committee to examine carefully who can best administer student loan programs. Will the performance under a federalization of loan servicing and collection really be better than the performance by institutions or state agencies? The current Administration has made positive moves to bring the default rate under control in the Federally Insured Student Loan Program. However, several previous Administrations ignored the problem of loan defaults, thereby creating today's high default rate. With proper federal management at the outset, we would not be in the situation that exists today. Can we be sure that future Administrations will be equally committed to the task of collecting loans?

States which administer their own Guaranteed Student Loan Programs have demonstrated their ability to effectively manage such programs as is evidenced by the significantly lower default rates in that program.

We recognize that some institutions have not properly managed their NDSL funds. However, the federal government has to share in the blame for this poor management. Until recently, institutions received only minimal help from the federal government in their collection efforts. Often, regulations are years late in being published. It took over two years to implement the 1976 Amendments permitting institutions to turn over defaulted National Direct Student Loans to the Office of Education. Further, we are still awaiting the tool most needed to assist institutions in their collection efforts—the reinstatement of the IRS skip-tracing procedures.

On the other hand, the Administration understands that many of our institutions would be delighted to get out of the collection business, since they believe their resources could be used in other ways. Unfortunately, it is again a mistake to assume that this is the case for all schools. In fact, we believe that institutions can effectively collect student loans provided they take their collection responsibilities seriously. The Administration would lead us to believe that such is not the case. However, unfortunately their own data does not substantiate this line of reasoning. We have information based on OE's own loan data which shows that institutions which collect their own notes have a lower average default rate than those which utilize outside servicing. We think that if institutions have no responsibility for collecting their loans, they may in fact neglect their duties, thus only contributing to an even higher default rate.

In summary, the loan portion of the Administration's proposal needs close scrutiny to determine whether federalizing the loan servicing and collections is the best approach to administer these programs.

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In closing, Mr. Chairman, I am sure you have noted that we are less than enamored with the Administration's loan proposal. Considering the testimony which has been presented to this Subcommittee to date, it appears that students, institutions, state agencies and the American people would be better served if we allow the existing programs to develop, mature and be refined in accordance with the recommendations suggested by the majority of witnesses who have appeared before this Subcommittee.

Thank you, Mr. Chairman, for the pleasure of being here.

Mr. Ford. Mr. Gibson.

STATEMENT OF JERRY GIBSON, CONSORTIUM ON FINANCING HIGHER EDUCATION

Mr. Gibson. Mr. Chairman and members of the committee. Thank you for the opportunity to appear before you. We also would like to thank you for your continuing leadership and your mastery of material of student aid. I would like to take just a brief moment and try to position our group of schools vis-a-vis the administration's proposal.

In our testimony before you we asked that the loan program be held as a kind of an evolving mechanism for student financial aid and that we try to avoid abrupt changes. In that testimony we supported a loan of need and we supported a supplemental loan which we conceived as primarily a parental loan.

The loan of need we assumed would represent an expansion of the NDSL loan program and the supplemental loan we thought would be a loan made to parents at market rates. Just a word about the loan of need.

We testified about the importance of consolidating the various programs, simplifying them both for the understanding of the student and understanding of the lenders for ease of administration. The 7-percent rate that we supported at that time represents not so much a comparison to other existing rates as a consideration of the fact that borrowers get a significant income tax deduction for the interest that they pay. In addition, in a time of inflation, if we ever get back to the point where we have only a 5- or 6-percent inflation rate, then we will have, in effect, an interest-free loan to students even if we make it at the 7-percent rate.

We talked about the supplemental loan for parents and the comparison between the existing opportunities and the opportunities they would have under that proposal. It is clear that parents are grateful for the interest subsidy to an amount of $2,500, but there are many families that need to borrow more than $2,500.

The proposal that we made is that they be able to borrow up to the amount of the parental contribution and at the market rate. Let me say a word about that.

It is more important in our experience for a family to be able to borrow up to the $4,000 or $5,000 or $6,000 that it needs in order to pay the bills and to have the interest deduction on their income tax. With the interest deduction, the actual rate that they pay will be in the neighborhood of 5 to 6 percent. Over the period of 5 to 10 years, as they repay the loan in a period of inflation, it comes very close to being an interest-free loan. They are repaying with dollars worth less than they borrowed. It becomes a very good deal for the family, one, to have the liquidity for more than $2,500 and, second, to have it at a cost that is really not an unreasonable cost.

What we are trying to do is to provide opportunities for financing of the need-based loan so that the student will be able to put together resources necessary to pay the bill, and also to provide families with a better opportunity for providing their share of the financing than exists under the current programs.

In terms of our response to the administration's proposal, we would like to see more financing options than they foresee under their program, but it is clear that we support the 7-percent need based loan and the supplemental loan for parents.

We run into serious difficulty with the administration's proposal when they talk about removing the subsidy for graduate students. Among our schools we have very large proportions of graduate students. These students have over the last 6 to 8 or 9 years experienced a steady withdrawal of Federal support—primarily in terms of Federal fellowships.

We are now at a point where the graduate schools have a lower representation of lower income students than there is in the undergraduate bodies. We are clearly beginning to get into a period of difficult accessability for graduate schools among lower income students.

All this is before any change has been made in the loan programs. Under existing programs graduate students can borrow subsidized loans for a total of $25,000 under the NDSL and the guaranteed student loan program. If they are in the health professions they can borrow additional money under the health profession's student loan program. All of this money now is from subsidized loans, and some medical school students can borrow under the HEAL program.

It is clear under the administration's proposal there is a very substantial setback. By requiring them to pay interest during the period they are in school we will undoubtedly affect the accessibility of graduate schools to low income students.

More than that, I think it is a forbidding prospect for a low income potential graduate student to be told he might have to borrow as much as $30,000, but might have to pay $50,000 or $60,000 in interest over the course of that loan.

I think we cannot support the withdrawal of the interest subsidy from the graduate student population.

Third, let me say a word about Sallie Mae. From the point of view of many among our schools, Sallie Mae has done more than any other single agency to bring order to the student loan program—all the way from defining due diligence to setting standards for all financial and educational institutions which are lenders.

It seems to me that in a way the administration proposal is caught on a bit of its own inconsistency. On the one hand they complain about the fact that Sallie Mae has not been able to raise capital and has had to rely too heavily on the Federal financing bank. Of course the ability to raise capital is a function of the return on the investment. It certainly is true that there is not a great market for Sallie Mae stock because of the low return on the investment. At the same time, however, the administration complains about the fact that the return is so high because of the kind of guaranteed return under the Federal programs. I simply have to observe that you take it one way or the other—inability to raise capital or too high a return on investment—but you can't play both sides of the streets at the same time.

From our point of view, Sallie Mae is an institution that is in place and is doing a very good job. We would like to see, as necessary, changes in the operating rules. If the President wants to control or if people feel that the President ought to control the Sallie Mae board, that would be a small adjustment. He now makes 7 appointments including the appointment of the chairman on a 21 member board. It makes much more sense to move in that direction, making small adjustments, than it does to step back and say, all right, we are going to start all over again to develop new operating procedures, to develop new controls and to recruit new staff.

It is the experience of our schools over more than a decade of dealing with the Office of Education and its various incarnations that we have had frustration piled upon frustration in terms of their ability to deal with loan programs.

Clearly some OE staffs have worked more effectively than others. But for us to consider the prospect of handing over responsibility of this magnitude to the Office of Education, with its past record of performance, as opposed to the existing alternative that we have to continue to work with Sallie Mae, is very forbidding indeed.

I hope that we can continue to work through existing agencies, that together we can work to develop a program that will be more suitable to the needs of all of our students.

Thank you very much.

Mr. FORD. Thank you.

Mr. Piana.

STATEMENT OF EDWARD R. PIANA, EXECUTIVE VICE PRESIDENT OF BAYBANK NORFOLK COUNTY TRUST CO., DEDHAM, MASS.

Mr. PIANA. Mr. Chairman and member of the subcommittee. I am Edward R. Piana, executive vice president of BayBank Norfolk County Trust Co. I appreciate the opportunity to participate in this morning's panel on behalf of the American Bankers Association.

Mr. Chairman, due to the relatively short period of time in which the administration's proposals have been available for review and comment, the American Bankers Association has elected to forego the preparation and presentation of formal testimony relative to today's hearing.

The purpose of my presence here this morning is to participate in a meaningful exchange that will provide subcommittee members with the necessary information that I hope will result in a legislative proposal that continues to truly benefit the needs of those students requiring financial assistance.

The American Bankers Association does, however, wish to state for the record the support of its membership for the present guaranteed student loan program with only those amendments as are necessary to provide for its reauthorization.

The recommendations recently released by the Department of Health, Education, and Welfare come at a time when actions taken by the subcommittee in the development of the Middle Income Student Assistance Act are only on the threshold of truly being tested.

The education amendments of 1976 provided what are considered by many to be monumental steps toward working out the inequities that existed between State and Federal programs and generated renewed vigor and support for the GSL program as a whole. Perhaps even more significant is the fact that such actions by the Congress gave lenders some encouragement about program stability.

That is why I implore this subcommittee not to perform major surgery in its reauthorization activity. What is required, above all else, is program stability, time for already enacted program modifications to take hold. A major overhaul at this juncture would be both shortsighted and wasteful. Please, and this statement has not been made in collusion with Mr. Fox, but I have it in here—"if it's not broken, don't fix it."

Mr. Chairman, I believe that such recommendations as the administration has proposed, appear to run counter to past history; the NDSL and FISL programs have been fraught with problems since their inception, while the GSL program has strived towards truly meeting the needs of those students requiring financial assistance.

As a lender, I cannot help but question the logic behind the restructuring of the NDSL as the basic loan program. I am especially concerned over the proposal that financial aid officers be given the authority for disbursing funds without having responsibility for their documentation and collection. This is an area that financial institutions are historically more qualified in, with trained lending officers experienced in all facets of credit granting as well as collection.

Finally, I would like to remind the members of this subcommittee that we are now approaching the peak period as it relates to student loan demand. We should be encouraging lender participation by instilling confidence that the program will continue, not suggesting a major upheaval that places lenders in the precarious position of being forced to question the making of loans with the likelihood that the GSL program will be abolished or radically changed. Such a dilemma is neither appropriate or warranted.

Thank you for the opportunity to present my views, and I will be very happy to answer any questions that you may have regarding my experience with, and perceptions of, the GSL program, as well as the administration's proposal.

I would like to supplement the official stance of the American Bankers Association, if I may, with some personal observations and I stress these are my own.

I hope they don't sound very presumptive, but I would like to underscore the fact that our particular bank in Massachusetts has a former president and chairman who was one of the guiding lights in establishing the first guaranteed student loan program in this Nation, that first one being in Massachusetts which goes back to 1956.

So, our bank has fully supported the scope and intent of student lending.

Over the years, by trial and error, we have found certain things work and certain things don't. Unfortunately, these things are now showing up in different aspects throughout the various programs that have evolved.

I might also add that we have over 15 percent of our consumer loan portfolio in student loans. This is not an insignificant figure. I am not referring to a bank that is unusually large or unusually small. We are about a $550 million bank. That would put us about average in this country, I would say, maybe slightly above average size.

Here are some of the observations I have made, and these are sort of off-the-cuff, one-liners. The best way to cut fraud is to separate the product sale—which in this case is education—from the financing. If the schools would be making the NDSL loans, as suggested by the administration, and they are also selling the product, I wonder if they would be obligated by the Federal Trade Commission rule which we, as lenders, have to abide by when we buy, for example, indirect paper or when a sales finance company such as GMAC buys automobile paper. The Federal Trade Commission statement is

> * * * that any holder of contract is subject to all claims and defenses which the seller may assert against the seller of goods and services obtained with the proceeds hereof, recovery hereunder by the debtor shall not exceed the amount paid by the debtor hereunder.

Some students might look to the schools for recourse.

I would also point out that Equal Credit Opportunity Act, as it exists, compels any lender who turns down an applicant to issue a credit denial notice. I state this because there are so many people who keep bringing up that old chestnut about kids being turned down left and right. You already have this regulation on the books, and lenders are obligated to physically give student applicants a credit denial. Also, discouraging applications without taking them under section 202.5(A) of regulation B—which is the Equal Credit Opportunity Act—will result in insistence by the regulatory authorities who examine all financial institutions that the lending institutions have affirmative advertising to correct such a violation.

I also stress the fact that we have the Community Reinvestment Act which requires acknowledgement of loan types available in the lending institution. You certainly can utilize that in any State where you are not getting cooperation amongst the banks and lending institutions.

I also wanted to underscore that when we use the common term "banks" let us realize there are thrift institutions and credit unions.

There are thousands of local existing banking offices in place throughout this county. Centralization of student lending to the schools and the Office of Education would eliminate access to those lending institutions. I can't see how you would do away with that. For example, we talk about difficulties that students have in repaying their loans at various times which is understandable. Under the present act there is a possibility to get up to 3 years in extensions. Who is going to negotiate these extensions after students graduate? Are they going to go back to the school or are they going to come to Washington, or are you going to set up all sorts of bureaucratic regional offices? I would think if they go back to the existing lenders in 14,000 commercial banks, plus the credit unions and thrift institutions, why not utilize them?

I would also like to emphasize the fact that the State agencies are expanding, they are improving in their processing all the time, they are automating, they are guiding the lenders, they are responding to lenders. I note that while I am on the opposite side of the country that the California situation seems to dramatize this point. The major California banks got out of the program a few years ago. They wrote far more loans than any other section in this Nation, but I would stress that all of those loans were in the FISL program. And, in fact, one of the reasons at that time for the California banks' ending their participations was that the students stated later they thought they were receiving grants and not loans under that particular program. The California banks are now back in the program under GSL and they expect to make at least $100 million in 1979 in student loans.

I would also say that we should tighten up so that not only well qualified schools, but also well qualified lenders, can participate through intermediary State agencies. The State agencies, among the things that they are doing, can help in developing jointly software enhancements. Let us not forget that administration of these loan programs is one of the problems for lenders.

I would also suggest for liquidity that we expand the outlets through Sallie Mae with a buying price to the lender geared to the quality of the documentation and the communications that the lender has had with the student, not necessarily the credit of the student.

I also have a strong feeling that students should borrow in their home State and it should be made mandatory that no State agency or lender should limit GSL loans to students attending in-State schools only. In other words, if I grant a loan in Massachusetts, I should not insist that that student use those proceeds to attend a school in Massachusetts only. I have reason to believe that this is not universally so. I suggest to you, for minor changes to be made, that you consider an administrative fee for loans in repayment. It obviously costs more to administer loans once they are in repayment than when they are in school.

Representative Fenwick mentioned in New Jersey the use of credit bureaus. Our own State agency, I know, reports student loans to the local credit bureaus, being TRW and Chilton in our area. In our bank we report every student loan that is made to the credit bureau on each and every month. It is part of the file. This is a double-edge sword. It helps a student to establish a credit rating and in those instances where a student decides to default, unless there are mitigating circumstances, it will show up in the bureau file.

Very recently we had one instance of a mortgage request from a student who now is a graduate with a very responsible job. Under the TRW system there appeared a charge off of a student loan in the State of New York. We very frankly told the applicant that we thought that was a not very responsible attitude for him to take and we were not about to accept a mortgage from him.

I think if that were done universally it would help tighten up the program and the abuses.

I also firmly believe that we should request cosignatures of parents or spouse. Before there are any groans, I heard Mr. Bohen mention today about the extension of the administration's recommendation which would require parents as makers for the supplemental plan. After all, if I don't want to take care of my offspring, why should society?

If I am not in a position as a comaker to my child's loan later to pay, fine. I am sure this great Government of ours will forgive me. But if I am in a position to pay, I should pay. I advocate cosignatures also because families will not want children to default on their student loans when they obtain them locally. I do suggest that the GSL be expanded from a maximum of $7,500 to $10,000, which would at least permit $2,500 per year for 4 years.

I also suggest that you mandate a fixed guarantee fee rather than saying that the agency can charge up to 1 percent. This has caused an awful consternation over a very minor point. I would say that Sallie Mae has done a complete job, but I would recommend that they get more regional servicers because obviously if the servicer is in Massachusetts dealing with Massachusetts students, it can handle them far better than they can be handled from North Carolina and vice versa.

I would also point out that lending institutions are more apt to support this program during a recessionary period because this is a countercyclical situation and there will be more funds available. There should be more funds available when we have a slight downturn.

In essence, what I am stressing is that in addition to rights I think we need to start stressing responsibility for the success of this program. The responsibilities I have tried to point out rest with the school, with the lender, with the State agency, with the Office of Education, with the parent, with the student, and also with the graduate.

Thank you very much.

[Statement of the American Bankers Association follows:]

STATEMENT OF THE AMERICAN BANKERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee, I am Edward Piana, Executive Vice President of BayBanks Norfolk County Trust Company. I appreciate the opportunity to participate in this morning's panel on behalf of the American Bankers Association.

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Finally, I would like to remind the members of this Subcommittee that we are now approaching the peak period as it relates to student loan demand. We should be encouraging lender participation by instilling confidence that the program will continue—not suggesting a major upheaval that places lenders in the precarious position of being forced to question the making of loans with the likelihood that the GSL Program will be abolished or radically changed. Such a dilemma is neither appropriate or warranted.

Thank you for the opportunity to present my views and I will be happy to answer any questions that you may have regarding my experience with, and perceptions of, the GSL Program, as well as the Administration's proposal.

Mr. FORD. Thank you. I just noted that the panel has greeted the administration's proposals with something short of wild enthusiasm. However, Jerry Gibson has an interesting approach: Let us take the whipped cream off the top and throw the rest of it away. He's the only friend that you have as I can detect this morning. I want to see if we can focus on a couple of themes that have recurred here.

It occurred to me this morning that in the past we have not questioned the assertion made repeatedly by representatives of the administration that GSL programs have not been available to needy students. That is not a new assertion with regard to GSL. We find here in your statement today, Mr. Bohen, on page 3—

> One of the major weaknesses of the current program is that only about 3,300 of the 6,000 eligible institutions choose to, or are able to, participate—both because of the burden of loan collection and the requirement of institutional capital investment. This excludes many students and forces them into the guaranteed student loan program—where we believe the poor minorities and women have not been adequately served.

Do we know that?

Mr. BOHEN. Mr. Chairman——

Mr. FORD. Are you saying it because we have an assumption that bankers are a lousy crew that do not respond? But aside from that kind of generalization, which is really kind of a prejudice against the banking industry, what evidence do we have that our experience until now with the guaranteed student loan shows any relevant pattern that treats these people differently than others, especially when one recognizes until very recently you could not use GSL for any but people I would regard as middle and lower income people?

Mr. BOHEN. I am going to ask my colleagues who have been closer to GSL over the years to bring forth such specific data. I think the record of this committee, with respect to the GSL program over a number of years and criticisms you have heard, are consistent with that charge.

Indeed, it is my understanding of the history that encouragement that the committee has given and that the Department strongly supports and would continue in these proposals for the States to become more active, for more States to come into the program with their own individual activities, was in some significant measure a response to that criticism.

But I would like to ask Mr. Butts or Mr. Davidson, who have been close to this program at the administrative level, to bring forth data to support that charge.

Mr. Ford. You are saying in one fell swoop that the GSL program is a program where we believe poor minorities and women have not been adequately served and that poor minorities and women presumably are forced to turn to GSL because only 3,300 of the eligible 6,000 institutions are making NDSL loans.

How do you relate the participating and nonparticipating institutions in NDSL to the present or absence of large numbers of minorities and poor people?

Mr. Bohen. I think the more general point is that it puts limits on the NDSL program. That is one limitation, the fact that not all eligible institutions participate.

Another is the limitation on funds, that is not an open draw, as you know. The level is set by annual appropriation. I do not have the figure at the tip of my fingertips. I think it has been documented that only a fraction of the students who would be eligible for the loans are currently getting them, even in the institutions that are participating.

There are some difficulties in the formula between States and between institutions within States. All of those clearly result in the availability of those low-interest 3-percent loans which presumably, if they are justified at all, should only be justified on the grounds that they go to the needier students since they are heavily subsidized by the public. The implication is that since the full volume of the need is not being taken care of there, the next place for people to turn is the GSL. There you have, as you know, a very differential participation rate both by lending institutions and by the States.

Mr. Ford. What you are saying is, in a general way, since NDSL is directed toward the groups that you describe, any place that does not participate is going to hurt that group. You are not suggesting that there is any correlation between participating and nonparticipating institutions and the presence in those institutions of minorities and women?

Mr. Bohen. No, that was not the implication, but just the fact of that and other related limitations on NDSL.

Mr. Ford. So in short, the other way to say what you were saying is that since this is a program targeted at low-income people, to the extent it is not universally available, it is failing the low-income people?

Mr. Bohen. We think that was the intent of Congress in the NDSL program.

Mr. **Ford**. The implication of your statement, if you take it in the context in which it is made, is that somehow the GSL program has promoted a dual standard here. What do you do if neither the institutional program or GSL is available?

Mr. **Bohen**. I think it is our sense. I think there is data to support this, that many kids are dropping through the cracks, they do not get a loan under either program.

The ones that are most likely to be in that condition with need are those that are likely to come from disadvantaged groups and to be facing one of these other limitations under NDSL. Let us see if we can get some data for the question, Mr. Butts.

Mr. **Butts**. I think we need to supply that for the record. The point is that if the NDSL program is designed for needy students it has two limitations. No. 1, low-income and needy students attending a school that does not participate are denied access to that subsidized loan. To the extent, over the years, the NDSL program has not been capitalized, we have not achieved the 1958 objective of establishing revolving funds. Students at schools where the loan funds are not revolving are denied access to loans.

Those students, after they have exhausted all other sources and still need a loan, must turn to the guaranteed loan program. Depending on the State in which the operation is taking place, the availability of capital can vary and it follows certain kinds of lender practices. A common lender practice is not to make a guaranteed loan to a student who does not have a banking relationship.

This sort of practice, in our view, makes it difficult for the student who should have gotten an NDSL, had it been capitalized fully. He is then excluded from both programs.

[Information referred to above follows:]

The GSL program was designed to provide an alternative to the NDSL program for those students who either could not obtain or did not qualify for a low-interest—3 percent—loan. NDSL funds are limited by institutional participation in the program, institutional allotments which do not necessarily correspond to aggregate need, and income eligibility standards for borrowers. Therefore, some needy students must seek aid from other sources to meet college expenses. Their next best alternative is the GSL program.

The availability of Guaranteed Loans is restricted by lender participation in the program and by the concern of some lenders (in spite of the Government's guarantee) for making a "good loan". Students often find it necessary to have had a prior Banking relationship with the lender in order to qualify for a Guaranteed Loan. Residency is another problem. Some lenders do not permit loan "portability" to out-of-state schools while others will not make loans to non-residents. Other lenders restrict loans on the basis of the borrower's credit background. In short, the discretionary judgements of the lenders play a large part in the distribution of loans.

These lender practices reduce loan availability for all students, but particularly for those from low income families to whom banks are less likely to lend. A recent American Management Sciences (AMS) study of current financial aid applicants found that twenty percent of those who tried to obtain a loan under the GSL program were unable to, with lack of a prior banking relationship with the lender cited as a major reason for denial of a loan. The Office of Education also has provided your staff with extensive documentation of lender practices which restrict loans under GSL. We also intend to provide the Committee more data from the AMS study which analyzes the differences between loan recipients and non-recipients as soon as it is available.

Mr. **Ford**. I am not going to put Mr. Bohen or any of your people on the spot because you have been very constructive friends of everything we have tried to do, but I am still smarting over the rationale from three successive administrative people for not funding NDSL.

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The rationale was that there is so much money that is revolving in the pot out there that we do not really need these appropriations arymore. OMB presumably signed off on the position that the administration is now taking.

Have they reformed that much over there that they no longer believe in the rationale for not funding NDSL no longer exists? This impression was given by three successive administrations, but nobody could prove it to us. What happens if we cut back on NDSL? Nobody has been able to show us what would happen and who would be most deeply affected?

This committee has operated for years on precisely the assumption you are now making, that NDSL is essential if you are going to reach the lower economic groups and minorities in some parts of the country. What happened to this pot of money that was revolving? Have they now been convinced that that assumption was flawed?

Mr. Bohen. Let me say first of all, happily, the administrations have changed and happily——

Mr. Ford. This administration?

Mr. Bohen. And the dialog is a little richer. I think OMB's interest has been twofold. One, it is obvious there is also a budgetary tradeoff question between all kinds of programs that have been at work here, sometimes more severely with respect to NDSL than at other times.

Second, there is this lack of basic confidence that if you are going to have a public subsidy of this scale, should not the program design be more encompassing, be more universal, be targeted more truly on need?

I think to the extent that serious concern has been there, the administration's proposals that I have had the privilege of advancing address that question. The proposition put forward is that we would fundamentally reform NDSL and I would contrast that fundamental reform of NDSL with a very modest set of changes as we perceive them with respect to GSL.

I think Mr. Gibson used the word "evolutionary." We believe these proposals, Mr. Chairman, are evolutionary in character. There is no major surgery contemplated here with the possible exception of Sallie Mae, and even there we recognize the functions. We argue that those functions can be performed more economically, and I think not at the cost to efficiency and credibility that has been implied here.

With that one exception we view our proposals as evolutionary. The thrust of the reform on NDSL is to meet that historic objection. If you are going to have a deep public subsidy which in the basic loan program we continued to believe is justified, it should be on a program that is universally available, that is available according to a national procedure that promises equity and should be funded at a level that will meet the need.

We have tried to set forth what we think those costs will be on the basis of reasonable assumptions.

Mr. Ford. Apropos of the statement made and repeated, "If it is not broken, do not fix it," presumably this is evidence that this part of the program is broken or damaged in some fashion. If that is the case, what alternative would you consider as a way to fix it

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before reaching the point of the administration's proposal and underlying that, what has anybody ever done in the Office of Education to increase that 3,300 figure to 5,300 of the 6,000 institutions?

Is it realistic for us to believe that during this period when year after year we have had budget recommendations to cut out any additional capitalization and to cut back on the capitalization, that anybody has really made any effort to induce more schools to come into the program?

Mr. BOHEN. I would defer to others who have been more involved with the Office of Education during that period of time on the question of inducement. We did look at, if you will, more evolutionary forms of NDSL having to do with the possibilities of revising the formula, and Mr. O'Keefe can detail some of these. We just increasingly came back to the point that there were a number of characteristics that were pretty flawed, and unless you were prepared to live with those flaws and open up the appropriations load on a much wider basis than I think either the administration or the Congress can contemplate, you could not meet need through this structure that currently exists.

Mr. FORD. What if we adjusted the formula for distribution of the NDSL money?

Mr. BOHEN. I think you can make some improvements in that respect.

Mr. FORD. The reason you give for nonparticipation is the availability and equitable distribution of loan capital, which you will solve all at once, and the fact that many schools find the servicing and collection functions to be costly as well as onerous. We have taken some steps to try to help that from time to time. Is it possible that we can answer those two problems with the existing program?

Mr. BOHEN. I think there are ways of revising those formulas. Also the cost to educational institutions is a factor. Each institution must provide 10 percent of the loan capital. This cost-sharing requirement, which has been in the program from the very beginning, influences the willingness of the institutions to participate. I understand that an institution that you are probably familiar with, Wayne County Community College, has recently withdrawn and given the 10-percent cost as the primary reason.

Secretary Califano testified to you in March, and I repeated the figures, that despite a lot of effort and very important improvements on the GSL side, we have not made any substantial progress with the default program in NDSL through exhortation and encouragement of the institutions involved.

Mr. FORD. Theoretically, your proposal would make available the substitute for NDSL, comparable support for students in all 6,000 presently eligible institutions instead of only 3,300. At first I was puzzled how this is accomplished without an increase in cost.

Mr. Martin, I think, outlined this morning how it is accomplished. You shift the cost to the student that you are trying to help by increasing the amount that they are going to pay in interest. Presumably, that is how it balances out, that while you help more people, you help the people who are not now being served because they are poor by increasing the cost of money to them. That offsets the additional cost of bringing others in and you are going to have the poor people subsidizing the other poor people.

Mr. BOHEN. Let me try to answer that question of cost because I really think it is very, very important to at least get the facts as we understand them out on the table. People can debate their situation.

One of the inspirations for these proposals is a concern that as Federal costs rise, and they are rising under these loan programs as well as under the existing loan programs, we attempt as much as possible to target those costs to students with needs that cannot be met from any other resources, that cannot be met from the family contribution on the basis of some reasonable formula and that cannot be met through the variety of grant, work-study programs that Federal Government sponsors.

With that approach, one that we believe will stand careful scrutiny, we set the Federal appropriations which are growing rapidly and indeed the administration is prepared to stand behind our proposed phase-in schedule. The tables that I provided today in response to Congressman Buchanan's questions show that.

Just this week the Appropriations Committee agreed on an appropriation for NDSL of $286 million for fiscal year 1980. That is down, I believe, $25 million from last year's level.

In 1981, the first year that our proposal would begin to be phased in, we would contemplate an appropriation for the proposed basic loan program of a Federal contribution nearly twice that amount. So, we see, Mr. Chairman, the use of Federal resources being targeted in on that basic loan program where we expect to really address need.

Now the question of shifting cost is also important. It is obviously a question of philosophy as well as resources. What is the appropriate share that should be borne by the institution, if you will? And certainly practically all institutions subsidize some share of the education. What is the appropriate share borne by the student? What is public policy to be? I have argued and I believe I heard Mr. Gibson, especially, complementing this argument that the existing interest rates are structurally out of whack. They were set at historical moments and the economy has dramatically changed.

We have proposed interest rates for both the need based and for the supplemental program aimed at parental liquidity that continue considerable public subsidy. The 7 percent rate or T-bill minus 1 provides a rate that will float with the economy. If interest rates generally come down, it could be in the relatively near future less than 7 percent for a need-based loan.

This committee, the Congress, and the administration really have to decide, in a time of austerity and a time when we cannot assume that for these programs or any other that there is an open-ended set of possibilities with resources; just where the balance should be set; and what is fair, what is a reasonable expection for the students; and what is a reasonable and manageable obligation for the Government.

We would absolutely concede that we think that per thousand dollars of loan now under the GSL program, the $700 public subsidy is very expensive and limits the number of students that can be served under that program.

We are trying to get a program that will serve at least as many or more students, and our figures suggest that we will serve more students, that targets available resources much more closely on genuinely unmet need and that provides a new option. And I emphasize option since it has been suggested that it is a requirement, to have an option for parents who face increasingly heavy costs. There is the need for middle- and upper-middle-income families to meet these costs by a loan of convenience overtime.

Mr. FORD. I would mention that NDSL appropriation ended up this week, while it is $25 million below last year, at $60 million over what the administration asked. It does not square with your position here this morning on your concern for expanding availability to these people.

Even this year, and precisely at the time when the OMB policymakers are considering this legislation, the same people presumably are making policy over there?

Mr. BOHEN. Two different programs, Mr. Chairman.

Mr. FORD. The same people presumably making policy for the recommendations and the rationale for the budget request say, "Cut back on NDSL," while they are recommending that you recognize that the inadequacy of the present NDSL is a reason for going in another direction. That leaves me a little uneasy.

The other thing is that, taken in total, you suggested a mandated system of allocation and resources here that suggests the student loan is the last thing you get to after you exhaust all other sources of packaging the necessary funds for attending school. You come out to an end figure that will be made up by student loans.

It does not take a whole lot of imagination to recognize that the people most hard pressed, whether they are poor people or middle income people, are the ones who are going to be taking out the largest loans. So we end up with a result here so that self-help in the form of loans becomes the one part of your program where you suggest the student incur the greatest expense. As Mr. Martin has done by extrapolating, using the T-bill rate of 10 percent with 1-percent add-on, the family who has had to borrow the full $2,300 under your program is going to end up paying $2,211.88, by his figures, more than they would have to pay under the current law to obtain that additional money

So the ones who need it most are going to get the biggest increase in cost of their education. That is an extra $2,000 on the total cost during the period of education for that student or that family.

This seems to work inversely with the rationale for trying to make these changes.

I am sure that there will be political decisions made on what those interest rates will end up being, but the real danger here is that, if we move into this kind of structure, once we have adopted the structure we have almost dictated that the only question is whether you are going to add another $2,000 or another $1,000 to the student's cost.

Mr. BOHEN. Let me say that we think we have advocated an approach and it could relate with our advocacy of the development over time of a common needs analysis system so that in fact poorer students would only be in this basic loan program if indeed the other sources of resources, the basic opportunity grant, which is of course an entitlement program, and such supplemental grant assistance as might be provided by a university did not cover the total need.

In some cases the total need is now, and will continue to be, covered. What this program would do is offer a Federal acceptance of a responsibility to provide resources uniformly for those students who still have unmet need. I do not think it follows and if it does, we would want to take another look at it, Mr. Chairman, that there is something in this program that will mean that the poorer students or needier students are going to have to borrow more than they would have to borrow now and that the equity features are somehow overridden by a scale of shift toward loans. That is not something we contemplate.

I think it was Mr. Packer who said earlier, while you were gone, that there is worry about our proposals that they will be so costly over time that they will put downward pressure on the funds available for grants and for work-study, supplemental grants and so on.

If there is a fear along these lines, we believe it rests with respect to the existing programs and the acknowledged dramatic increase in lending volume under GSL.

We do not know the profile of people who are borrowing, but it is clear that those programs are growing very rapidly.

An unanswered question, one we will have to look at, is who is getting those funds and what pressures is it going to create in your committee, in the administration, and in the Appropriations Committee on these other programs? We believe we have come up with a proposal that both in the first year as well as 4 or 5 years out is realistic within budget and economic projections, will increase the number of students served and indeed the size of the average loan and will be much more closely targeted on need.

I think those are principles and themes we have tried to keep in sight as we have thought of reforms worth considering in these programs.

Mr. **Ford**. What is your response to Mr. Martin's observation on page 3 of his statement that the health professions, business, and law students are currently eligible to participate in both or either NDSL or GSL but you shift them exclusively to the supplemental loan program at the higher interest rate?

If one assumes that the low-income student seeking this kind of educational opportunity is most likely to be borrowing, what is the rationale for selecting out this type of endeavor and making it tougher for him to do it? Why not music, too? I am not being facetious—music, the arts. Why do we come up with the health professions, business, or law? I have a suspicion lurking in the back of my computer about what the rationale might be but I would like to hear it.

Mr. **Bohen**. The rationale for that is a budget and cost limitations rationale. This would be a much more expensive program if graduate students uniformly in the professional schools as well as the other schools were eligible to borrow under both the basic loan as well as the supplemental loan.

Mr. **Ford**. Why not all graduate schools? Why don't we exclude all graduate students?

Mr. **Bohen**. If you have to make distinctions, our sense was that students attending those professional schools are, over time, clearly going to have—and data is available—incomes far greater and therefore the costs of borrowing are more easily met by students who are products of those kinds of professional schools than students who become history teachers or archeologists or whatever.

Mr. **Ford**. That is exactly what I was afraid was really the rationale for this. It really flies in the face of one of the problems we have. How do we get minorities to go to graduate school and become deliverers of health care, become business managers so that we have more minorities in the business community and law so that there are more people representing people with whom they relate if we say, "We want you to borrow more money at a higher cost" and thereby make it impossible for them to do the things that we thought would flow from including minorities and low-income people in the program?

How does a low-income-family-based law student manage to go out and work for legal services, for example, in a field that would be most likely to have those prejudices that obviously associate with their background and work for the good of improving parts of society that need help if we have him carrying a $25,000 package on his back when he leaves school with a high interest rate?

The people who are going to the schools represented by Jerry Gibson are all virtually guaranteed that they will be making a lot of money, but some of them have enough individual resources so that they can go to these schools and do these other things.

We have legislation pending before us, for example, sponsored by the gentleman from West Virginia, Mr. Staggers, asking that we extend loan repayment forgiveness for people who will take nurse's training and go into Appalachia, where there are no nurses.

How do you encourage these things when you say, on the one hand, what we are trying to do is maximize the accessibility of education for low-income people and people without independent resources, and on the other hand, "However, once you finish school we want you to recognize that all that business was not for real because what you really have to do is go out there and find a job that makes money as fast as you can"?

All of the choices are gone. There is no couple of years of working at relatively low pay among poor people. They have to get out and get a practice going or go to work for a corporation. We have lost the social value of everything we started out to get. It just does not tie together to select out particular professions.

If OMB really wanted to do a good job and save the money, just knock all the graduate students out. I don't understand the difference between a music student and a law student when, in fact, I believe that both of them have the same claim to the freedom of choice. There is some sort of assumption, I suppose, that a music student is not going to make money as a musician as is a lawyer or member of the health professions.

Mr. **Bohen**. In a variety of ways the Congress has encouraged special programs for the recruitment of minorities into graduate professional opportunities, such as in the medical schools. There is nothing in these proposals that would dislodge or replace those nurtured programs, and this committee has been among the most energetic and positive in supporting them.

I must also say that the leadership of HEW has been very, very strong on those programs. In the education budget there is a major grant program focused on precisely the need you have identified in the area of graduate professional opportunities for minorities.

There is in the health budget a comparable scholarship program aimed, on a national competition basis, to encourage minorties to come into the health professions. There is nothing in these proposals that would dislodge those. What there is in these proposals is an attempt to recognize the differential rates of income and prospects with respect to loans.

It is a pragmatic judgment and it is a cost question. But I don't think it is an all-or-nothing proposition because the Congress has supported and the administration continues to support targeted programs of assistance to meet the very real issue you have put forward.

Mr. **Ford**. It just denies the real facts of life. If you are lucky enough to be born into a family with resources, that luck stays with you for the rest of your life. If you are lucky enough to have parents who are college graduates who will assure your preparation for college, that good luck stays with you for the rest of your life. If you are unlucky enough to have none of those things, that bad luck stays with you for the rest of your life.

You can find very clearly—there are exceptions, of course—that there is a broad correlation between the success of somebody in terms of how much earning capacity he is going to have coming from someplace that already has the earning capacity as contrasted with somebody coming from a disadvantaged home. A person coming from a disadvantaged background and becoming a $100,000 lawyer is the subject of a feature article in some magazine. Thousands of people coming from advantaged backgrounds and becoming $100,000 lawyers don't make a story; that is expected of them.

What we are doing is shooting at the wrong people because it is not going to be the advantaged student who is going to be disadvantaged by your increase in the loan rate. You may be discouraging somebody who doesn't need the money from taking a loan, as they supposedly are anxious to do under the existing system, but I really can't grasp the rationale for making this kind of discriminatory judgment.

What you are saying is that we are not making them ineligible for loans; we are simply shifting them to a higher cost money package. The rationale falls back on only one thing. Because you happen to fall into these areas of graduate school, the probability is that you will make more money.

I think the women's groups would have some interesting reaction to that when they compare what the average woman college graduate or law school graduate or health professions graduate makes against the average male law graduate. That is changing but it has not reached equality yet.

There are an awful lot of differences in the kinds of career opportunities that are available to minorities and to women in these professions and especially in these professions in some instances.

I don't want to continue quarreling with you but when I introduce the administration's bill by request, I am going to be holding this part of it way out here, like this. It seems to me that the OMB people over there have got a little bit greedy with what they want to do.

Who is going to lobby for this kind of money that we are talking about? If, in fact, this is going to produce growth in the student loan program, it is going to produce growth in cost for the student loan program. We know who comes in here and fights with OMB year after year to get the money to finance the programs now. Who is going to do the fighting after it is all over in the Office of Education?

Where is the constituency, in other words, for this? How do we sell this kind of policy change without an identifiable constituent?

Mr. BOHEN. Are you talking about this specific one or the whole package?

Mr. FORD. I am zeroing in on the loan portion of it and the impact that is only beginning to register with me of making the kind of shifts that you recommend. I have to say that it sounded very good to me 6 or 8 months ago in conception, and it is not coming across that well now that we see it here on paper. I am not trying to quarrel with you as to how it developed, because it did look like a logical direction to go. It appears we are creating more problems than we anticipated when we talked about this as a abstract conception rather than a specific piece of legislation.

I would like to yield to the gentleman from Alabama and then get to the other panelists who might want to more specifically deal with these things. I would like to have you pick out those areas of criticism that you would like to respond to that have already been mentioned by members of the panel. Mr. Buchanan.

Mr. BUCHANAN. Do you have further response to make?

Mr. BOHEN. No; I am happy to take any questions you have.

Mr. BUCHANAN. In your comparative summary, you note that by 1985 the proposed programs will show cost savings of $405 million when compared to the current programs. I want to ask about the proposed changes in NDSL collection provided in the higher education technical amendment and the other steps you have authority to take in OE to bring about better loan collection.

Are you assuming increased NDSL checks under the present system in your comparison, or are you assuming the continuation of the 17-percent NDSL default rate in comparing the present system with your projected savings in the new system?

Mr. BOHEN. I think we will have to supply that for the record. I don't have that exact information. I will give you a general sense. I think our projections under current programs contemplate some modest improvement but really quite modest under NDSL and our cost projections under our proposed programs, which would include the assuming of direct responsibility by the Federal Government for the servicing of the new basic loans, contemplate significant improvement, first of all in the lower rate of default and then more rapidly getting those loans into a collection status.

[Information requested follows:]

DEFAULT RATE ASSUMPTIONS IN COST ESTIMATES

Direct/basic loans

The cost estimates for the Direct Loan program (assuming continuation of the program through 1985) assumed that the Federal government would continue to provide $220 million per year in capital contributions to institutional revolving funds and that institutions would continue to collect about $420 million per year. These two sources of funds would maintain a $640 million annual loan volume for Direct Loans.

The cost estimates for the proposed Basic Loan program assumed that about 10 percent of the annual loan volume would be filed in default, bankruptcy, death and disability claims and that 50 percent of these claims would be collected over time. Thus, the estimates assumed a 5 percent annual loss in funds available for subsequent relending.

Defaults in the Direct Loan program (as in the Basic Loan program) represent a loss in the funds available for relending in subsequent years. It would be impossible, with the available data, to reconstruct how much would have been available for relending under the Direct Loan program had the loss rate been 5 percent as is assumed for the Basic Loan program.

However, statutory authority has been recently provided which permits the Office of Education to act as the collection agency for institutions on loans that have been in default for two years or longer. As a result of the new law, it is expected that the institutional default rate will decline to 10 percent in 1980 and that the losses to the revolving fund will decline to 5 percent in 1985. The following table shows how much is expected to be available for relending, assuming continuation of the Direct Loan program, in the future as a consequence of the declining loss rate.

[Dollars in millions]

	Institutional Default rate	Loss rate	Collections	Contributions	Total loan volume
Year:					
1978	17.4	17.4	$317	$220	$537
1979	13.0	18.0	350	220	570
1980	10.0	15.0	411	220	631
1981	10.0	12.0	455	220	675
1982	10.0	10.0	495	220	715
1983	10.0	8.0	545	220	765
1984	10.0	6.0	600	220	820
1985	10.0	5.0	660	220	880

Even with the declining default and loss rates, the amount funds available under the Direct Loan program would be significantly below the amount proposed under the Basic Loan program as show in the following table:

[Dollars in millions]

	Loan volume		
	Direct loans	Basic loans	Change
Year:			
1981	$675	900	+225
1982	715	1,330	+615
1983	665	1,900	+1,235
1984	820	2,140	+1,320
1985	880	2,380	+1,500

In addition, Basic Loans would be distributed on the basis of need and available to needy students at all eligible post secondary institutions. In other words, the availability of these loans would not be limited by the size of the institutions' revolving funds as would be the case with Direct Loans.

Guaranteed/supplemental loans

The cost estimates for both the Guaranteed and Supplemental Loan Programs assume a default rate of about 10 pecent.

Mr. BUCHANAN. Joe Califano said the present program costs several hundred dollars per $1,000. What will be the Government's cost per $1,000 loan of the proposed program? We might be able to extrapolate it from what you have given us.

Mr. BOHEN. I will have to ask for some help on this. Mr. Califano's point was with respect to the current GSL program. That is, a $1,000 loan under that carries with it a $700 public subsidy. We may have to supply that for the record.

[Information requested follows:]

The cost to the Federal government of a $1,000 loan under the Guaranteed Student Loan program is currently about $700. This cost is primarily a function of the current high interest rates.

Assuming that economic conditions improve over the next several years, a $1,000 loan made in 1981 under the Guaranteed Student Loan program would cost the Federal government about $565 over the life of the loan. The same loan would cost about $180 under the proposed Supplemental Loan program and about $355 under the proposed Basic Loan program.

The following assumptions were made in determining the cost per $1,000 of lending under the Guaranteed Student Loan program as well as under the proposed Basic and Supplemental Loan programs.

Loan would be made in fiscal year 1981.

Loan remains in-school or in-grace for 4 years.

Claims rate of 10 percent, with half of that amount eventually collected.

Ninety-one day Treasury bills, which determine the interest costs of all the loan programs, would decline gradually from 8.2 percent in fiscal year 1981 to 6.6 percent in fiscal year 1984 and level off at 5.5 percent in fiscal year 1985 and subsequent years.

Future year costs were discounted at 7 percent.

The Office of Education reports that 3,357 institutions are currently participating in NDSL. Below are the breakdowns by type and control of both participating and eligible institutions:

	Participating institutions	Eligible institutions	Percent
Public:			
University and 4 yr	496	587	84
2 yr	503	1,180	43
Other	10	159	6
Subtotal	1,015	1,926	53
Private, nonprofit:			
University and 4 yr	1,053	1,265	83
2 yr	147	709	21
Other	83	208	40
Subtotal	1,283	2,182	59
Proprietary	49	2,766	38
Other	10	334	3
Total	3,357	7,208	47

As the above data indicate, the largest categories of non-participating institutions are community colleges, two year private colleges, and proprietary schools. In the roughly 3400 institutions which do participate in the NDSL program, loans in 1977-1978 were made to almost 800,000 students. The Office of Education estimates that

those loans represent only about 10 percent of the total potentially eligible NDSL loan recipients in the population.

Mr. FORD. What I was trying to get to is: Did he use the same criteria for constructing the models that you compared? If, on the one hand, we continue to assert that the present programs are going to produce a lower default rate than in the past because of changes we have been making and new initatives coming from the administration, it is only fair to project what that will be 1 year or 2 years or 3 years down the road and then compare that figure with what you are proposing.

In other words, I think it would be only fair that you plug into both of them the same rate of default. Whether you arbitrarily take 5 or 10 percent for comparison purposes, if you assume the same rate of default, what happens? What kind of comparison?

Mr. BUCHANAN. That is right. The cost question is one element of the cost. Are you using the same standard? Are you measuring apples against apples? Are you using a single standard?

Mr. BOHEN. I believe we have put forward an honest proposal. Let me state that affirmatively. The distinction I was trying to make was between the improvement that I think is documentable in both the lower default rate and improved collections under the GSL program, which experience we hoped to build on in making the proposed basic loan program versus our experience under NDSL, which, as you know, is institution centered and where the institutions historically have had the responsibility for servicing and managing the loans.

Despite a number of things that Secretary Califano has done, there really has been practically no progress with NDSL over the last 2 years, as he acknowledged in testimony before this committee.

Mr. BUCHANAN. You are just getting started with NDSL? That is not as if that is a long-term effort.

Mr. BOHEN. We have been working on that about as long and about as hard but with much less significant results than under the Government-managed program.

Mr. BUCHANAN. I will withhold further questions.

Mr. BOHEN. The basic point, I think, we can provide is that we have tried to use consistent assumptions and not skew the new versus the old.

Mr. FOX. The comment that Mr. Califano made that the cost would be several hundred dollars per $1,000 was predicated on the current interest rate. The interest rate at that time would cost the Federal Government 13½ percent. About 2 or 3 years ago you would have found, with interest rates about half of that, that the same exercise would have produced a significantly reduced cost per $1,000 of subsidy in support of that program.

In truth, the program is quite cyclical. At any given point in time, you are a slave to interest rates, but I think it makes no more sense to cost it at the top of the cyclical than it does to cost it at the bottom of the cyclical. We just know that it will be uneven. It is clear we are at one of the high points right now; 6 months or 1 year from now it might be a different cost factor. That would have to be taken into consideration in costing the true subsidy of Federal cost per $1,000 of loan guarantee or insured loans.

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Mr. **Martin**. Let my try to talk about a couple of strawman arguments that I think have been presented here. No. 1, it was mentioned in the beginning of the remarks that there are a lot of institutions that are not participating in these programs currently. Let me suggest that we ask the Office of Education to provide to the committee a list of those institutions by type and control and enrollment that are currently not participating in the NDSL program.

I think that record will show that the schools that are not doing so at the present time tend for the most part to be very small and in many cases proprietary types of institutions that have very small enrollments. I see no evidence, in terms of encouragement and incentive, based on the change from the current NDSL program to the basic loan program that the administration is advancing, that any more of these institutions will get involved, because they don't care to deal with the paperwork and because loans tend to be a long-range kind of commitment in terms of following through. It is not to their advantage. I think it is a strawman argument to try to use the number of institutions participating.

Second, on this consistent argument on who is benefiting, who is getting these funds, I don't believe they can come here year after year and not have a profile of the borrowers. Institutions have been providing to the Office of Education for 22 years detailed FISL reports of all students by income categories. We used to provide it by sex and racial group.

Likewise my colleagues in the State agencies have provided the same kind of statistics consistently to the Office of Education. For the last 2½ years we suddenly no longer see an accumulation of these.

If there is a fallacy in not having a profile of borrowers, it is the fact that the Office of Education has not put the statistics together, because we have been furnishing them from many years. It may not be available to them in a form because they have neglected it, but nevertheless it should be there. I can't believe that we continue to have this debate about that.

Let me say that we have applauded this administration and particularly the people in the Bureau of Student Financial Assistance for the efforts they have made in beginning to reasonably and responsibly deal with the default question and providing support in this country. It has been in benign neglect before this administration and before Mr. Kornfeld and his people began to address it.

The arguments that are still advanced in terms of saying that we have done all of these things in NDSL and we have produced results are fallacies. The data that is being looked at is old data that does not reflect new initiatives. We have been talking about a program in existence 22 years and in 6 months we are supposed to have changed all of the bad things that have occurred.

Anyone who has worked in this knows that program regulations have been delayed. We did not receive at the institution the final program regulation under the NDSL program until 2 months after the 1972 amendment expired in 1976. I happen to maintain that institutions have a responsibility but likewise so does the Office of Education of providing technical support and administrative assistance. That is true in terms of eligibility of schools. We have had skip tracing taken away from us.

Mr. Packer. In looking over the material the administration provided for the record, I think there are a couple of interesting points. In terms of total loan volume being number of dollars available in their proposed program versus current program, there is a significant decrease.

The administration projects, if the current programs were maintained, that by 1985 there would be $7.6 billion available for lending. Under their proposal it would be only $5.3 billion. Even under these proposals, which are supposed to assure access to guaranteed loans, there is a significant dropoff in dollars available.

At the same time, it is inconsistent, because they are saying that the number of students aided will increase and the average loan size will increase. I don't understand how the number of people being served will increase. The amount per person will increase but the total amount of money available will decrease. That does not work out when you multiply the two numbers together.

The other point is that on their projections of the cost to the Government, while they have some savings in the proposed program compared to current programs, we don't see any major savings until 1985. In 1982 there is the same cost as under the current program; in 1984 an increase in cost to the Federal Government under their program over the current program. It is only 1985, when these things will be reauthorized probably, that we will start seeing some cost savings.

It is also interesting to note, if you look at the commentary, that all cost estimates excluded the cost of the administration of the program, excluded the cost of the whole new Federal Government Student Loan Association. If you figure that will be a couple of percentage points of cost, when you talk about cost of $1 billion it is clear to me that we are talking about a total increase in cost to the Government from this program because we are replacing private capital with Federal capital, at the same time increasing the cost to the student by increasing the interest rate, so everybody loses.

Mr. Holst. I do not wish to emphasize loans as the only, or even the first, type of assistance, but I do want to call your attention to the fact that in data which we have submitted to the committee from those States which have locally administered GSL programs, not FISL States but the others, the agencies believe that they are meeting the need.

It has been suggested that lenders will lend to only students who come from families that have accounts. Certainly this does occur but that it is general is not borne out by the data. There is an analysis of loan recipients by income of the family and this extends down into low-income families. The data indicates that loans are available to them also. That is the general experience of the GSLP. The sweeping statement that lenders are not willing to lend to the poor—I am not saying that they ought to be called on to do that, but that if they are, in fact, called on to do so that, there is no evidence that the GSLP locally administered will not meet that need.

There are people here, especially on my right, who can talk about the adequacy of bank capital to do that. Likewise I understand that Mr. Peyser is especially interested in what would happen if there were a mild recession. Our banker friends are prepared to discuss that, too.

Mr. Ford. What about Mr. Piana's personal observation, preventing banks from having a policy of not lending to a student who goes out of State to a school? I have had a recent experience called to my attention of a student who transferred from one State to another and pursued exactly the same course of instruction with the full intention of returning to his State. There is an arbitrary rule apparently in that State that if you go out of State to attend school the lenders will not make a loan.

Would you favor a provision that would prevent banks from making that kind of arbitrary distinction? What do you do in Massachusetts? I gather that in Massachusetts you are importers of students to begin with.

Mr. Holst. Yes, and we have changed our programs to make loans available to out-of-State students coming in.

Mr. Ford. What about somebody from Massachusetts?

Mr. Holst. Somebody who goes to school outside the State? We have never had nonportable loans. From the beginning loans in our program have been portable out of the State.

With regard to the other question, of out-of-staters coming into Massachusetts, it used to be common throughout the country that guaranty agencies were trying to encourage loans to students in their home States and were reluctant to have their lenders make loans to nonresidents.

The residency of a student is not always easily determined. Where a student who has been living, say in New York, moves to Massachusetts to attend Harvard Business School, and stays there for several years, of which State is he a resident? Are such students still residents of New York? Or have they become residents of Massachusetts because they are temporarily at school? This has been a no man's land but is being resolved.

As far as Massachusetts and many other States are concerned these questions have been answered. We will guarantee loans for students from out of State who attend school in Massachusetts and we do have lenders who will make those loans.

Mr. Ford. You made the assertion that you don't think the phenomenon of requiring a family account as a condition to processing a guaranteed student loan is very widespread.

Mr. Holst. No.

Mr. Ford. We have heard from many sources for some time that it is indeed widespread across the country. One is led to suspect that one of the reasons why that type of bank would not make a loan to a student leaving the State to go to school is that the loan is not likely to be an investment in a future depositor. It could be totally coincidental, but what would be the other motivation for a bank to have that kind of rule?

Mr. Holst. First of all I think the statistics deny that, but let a banker answer you.

Mr. **Piana**. I believe, first of all, that Sallie Mae rules specifically preclude that. You cannot sell a loan to a secondary market if you have a precondition of having a banking account with the lender.

Mr. **Fox**. That is by law.

Mr. **Piana**. That already is in the law. Even where the lender may be so small that it has no intention of doing so, or doesn't know that it is law, a little bit of moral persuasion on the part of the agencies in the States, I think, is taking care of that.

Mr. **Ford**. What you are suggesting is that the anecdotal evidence that we see here from time to time about this is probably old?

Mr. **Piana**. Yes, I am. I would cite the fact that at our bank we certainly have never had that requirement, even prior to the onset of Sallie Mae. I might even point out that for 2 years in a row we solicited every public, private, and parochial high school in writing, pointing out the fact that they should tell all their graduating high school students that we are in the market to make student loans. I must admit that I used this as a good offensive to offset those lenders who have cold feet. I think in the long run that our bank and other banks such as ours will profit by promoting GSL student loans in contrast to those who do not.

While I have the microphone, I also would note that we never have turned down an applicant for credit. There may be other reasons, but as far as I know we have never turned down an applicant for credit. Some of the reluctance on the part of lenders to participate in the past on these programs, not only the schools, have redtape problems but I would cite to you, looking at an old report here, that we used to have to break down these loans because of the very thing we are discussing now.

So many, many changes. All those loans granted prior to August 1, 1968, we had to keep separately in law as 6-percent loans. All of those from August 2, 1968, to July 11, 1969, 7 percent. All those from August 1, 1969 to the present were 7 percent plus a special subsidy.

Then we had all those who weren't eligible for subsidies in a fourth group. Those are four groups for the people who are in school status. Two additional breakdowns, once they are in a payback status. You have to envision that these are not institutions out there with the best of software programs. Many of them are small country banks trying to take care of their local customers, the sons and daughters. To put out something like this was an absolute catastrophe. Fortunately the changes as of January 1, 1977, were such that they have made it much simpler for us.

I will also make one more point. As far as the profile of the student, I have with me a worksheet from applicant for credit. Some of the reluctance on the part of lenders to participate in the past in student loan programs was rooted in redtape problems involving school and loan administration. Let me cite to you some details from an old report which shows the multiple categories of student loans which we were required to maintain. All those loans granted prior to August 1, 1968, we had to keep separately as 6-percent loans. All of those from August 2, 1968, to July 31, 1969, at 7 percent. All those from August 1, 1969, to the present were 7 percent plus a special subsidy. Then we had all those which weren't eligible for subsidies in a fourth group. Those are four groups for the students who are inschool status plus two additional breakdowns for those in a payback status. You have to envision that lenders out there are not all institutions with the best of software programs. Many of them are small country banks trying to take care of their local customers' sons and daughters. To put out something like this was an absolute catastrophe. Fortunately, the changes as of January 1, 1977, were such that they have made it much simpler for us.

I will also make one more point. As far as the profile of the student, I have with me a worksheet from a well-known eastern institution, unnamed, but on the banks of the Charles, who sent me their term bill for this fall for my son, and they want their money by August 20. For the first term it is $4,160. I can assure you, even though I am here with a nice fancy title as a banker, that I must utilize the student loan program.

Mr. Fox. I would like to differ a bit with Mr. Piana. Sallie Mae is in constant contact with lenders all over the country. We still find that there are significant numbers of lenders who are still reluctant to lend to students unless there is some form of family or prior relationship. We do see a very dramatic change occurring now. We are finding that the State agencies working with the secondary market makers are inducing whole groups of lenders together to drop that so that one does not feel they are going to be prejudiced with a dramatically increased surge of lending while the others step away from the program.

We do see changes occurring. I think the worst of it is behind us but it still exists and it has had an impact on some of the Sallie Mae programs because by law we cannot deal with certain institutions that require an account relationship.

Two other points. Large banks in the metropolitan area have found that even when they lend to students in their trading area they are very mobile and perhaps the same percentage of those students will be billed outside their market areas as those students come into their area to go to school and don't choose to return home.

They found just lending to their own people in their own community makes no sense because they have the same percentage coming back to live in the community as out of towners move in and roughly the same percentage of future bank accounts.

Also they found that the kids are not stupid. They open these very inexpensive low dollar volume accounts about a year before they go to school. The Bank of America discovered that on the west coast. As soon as the student's name got in the computer as having a $20 account balance which cost the bank $3 a month to service they were generating a loan. So they pulled that requirement out and tried to advise others in their area this was not exactly smart strategy.

Close to home working with Jim Leamer and the Maryland State agency, the major banks in Maryland which had this kind of problem dropped from their process a requirement that there be a prior relationship.

Simultaneously perhaps six or eight of the major statewide banks, all of the institutions simultaneously worked out with Sallie

Mae an opportunity to sell those loans where they consolidated the indebtedness and could move it in one package. It has worked very well. Lending has increased dramatically in the State. Students who can't find loans can go to their State agency and they will say here is a bank that will make a loan for you. These things can be done and they are changing.

Unfortunately they are not happening fast enough.

Not too long ago the Office of Education circulated a proposed regulation that dealt with underwriting standards. It said that bankers should make a loan if the student resides in the community or if the student comes in and goes to school in the community or if you had a prior business relationship and ascertained quality and assurance of repayment.

This never got in the banks but this was a circulated proposed regulation about 2 years ago. There is a lot of ambivalence about what is the appropriate way to do things. It was shot down by the bankers who said that that requires a commercial tie-in and articulating it would be perhaps against some other Federal law.

We are telling you not to do that. It was the banker that stood up and said that is probably against public law.

Mr. MARTIN. Let me make another point. We have had a lot of discussion here and I think it will be a focus of discussion and that is on the interest rates in these programs. I think it is easy for us to look back historically and point to statistics that would say that the reason that the NDSL rate was set at 3 percent in 1958 when it was enacted is because of the comparable rate in terms of the money market at that time and Treasury bill rates and so on.

Let me for the record remind everyone that the reason that the National Defense Education Act was enacted in and the student loan portion has grown, at that time we were faced with a major crisis in this country in terms of a fear from the Russians, in terms of the Sputnik, about a potential threat to our falling behind. That program was really created as a manpower type of program. I think from particular legislative history in that point in time that the Congress of the United States and American people have learned that if we are going to insure that we have a well-educated society and we are not going to fall into that position again, that it was necessary for us to make an investment in the youth and in the people of this country to obtain postsecondary education.

So I would just suggest that the criteria that were used at that time and the concept of need which was the original NDEA Act is quite different from the programs that were built upon and added in 1965. At that time it seems to me we made a commitment to substantially underwrite the cost of education to insure that all people had access to postsecondary education.

So I am not certain it is appropriate to necessarily compare those costs of what was appropriate at that time in terms of where we are today.

Mr. BUCHANAN. Before we get too far away from it I would like to request, if possible, the information that Dr. Martin earlier suggested on the breakdown as to types of institutions, and also request information on the percentage of students to whom NDSL loans are available so that we get some idea of the magnitude which I think is the real question.

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Mr. **Bohen**. We will be happy to provide that information. I do think that so much of the question about whether major reforms of NDSL are necessary turn on the question of, if you will, what is GSL really doing. If you really thought that the GSL program was broadly available geographically, you were really persuaded by data, maybe you would ride with that in the future. I think we have an obligation to provide the best data we have. I understand from my colleagues with the lifting of the ceiling there is now no requirement or no incentive for the lenders to collect information on the income of borrowers so we may not be able to get current data.

I have to say that again without knowing where reality is. When we see a jump in lending volume of 45 percent over our projections in the first 6 months of 1979 after the income ceiling, which previously as you know had been $25,000 and then was to be $40,000 and was lifted completely, we can't help but worry that that jump is substantially if not completely explained by a lot of loans going to people in those upper brackets because historically when that ceiling was on, the lending volume did not change very much from year to year.

That has to be a concern and it is an underlying concern.

Mr. **Ford**. Let me suggest another suspicion you ought to bear in mind. It is one I never discussed with the administration when we negotiated the Middle Income Student Assistance Act. I always thought the figures we were using were fair but very badly understated because the phenomenon that all of us has been acquainted with is the fact that a large number of people who formerly qualified for assistance were turned off by street knowledge that said you don't fit the category of the people in these programs. We put so much emphasis on talking about low income people and minorities that people who didn't identify themselves in that fashion just would not subject themselves to the humiliation of being told that there is no aid.

We have all had the experience of running into somebody who complained about it early, "Why isn't there a program for me?," only to find that they did in fact qualify for a program.

I am pleased there has been a 40-percent increase, but I would not assume that that 40-percent increase is all made up of newly eligible people. My strong suspicion is that a lot of that 40-percent increase is people who would have been eligible with the $40,000 or $25,000 cap but never bothered to go see the student aid officer because the rumors were that you couldn't get it. If you can give us a breakdown of any kind on who these new borrowers are it would be very helpful to us.

You did say a little while ago you don't have a profile. Now you say you don't have current data. We will take anything you can give us.

Mr. **Bohen**. We will give it to you.

Mr. **Ford**. Make it as complete as you can. If it obviously points toward another factor that will have an impact, take a look to see if you have that available as well.

[Information requested follows:]

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DISTRIBUTIONS OF LOAN RECIPIENTS BY INCOME AND INSTITUTIONAL SECTOR—1978–79

[In percent]

	4 yr public		4 yr private		2 yr public		2 yr private		Proprietary	
	NDSL	GSL	NDSL	GSL	NDSL	GSL	NDSL	GSL	NDSL	GSL
Dependent student family income:										
$0 to $6,000	14	19	20	17	15	23	10	19	15	22
$6,000 to $12,000	19	9	18	12	13	6	31	19	14	16
$12,000 to $18,000	20	13	20	14	14	8	17	15	14	17
$18,000 to $24,000	17	20	18	21	4	3	21	24	7	11
$24,000 to $30,000	3	5	7	7	1	0	2	9	1	2
Over $30,000	1	7	3	13	0	0	1	5	0	3
Independent	27	28	14	17	54	60	18	9	48	29
Total	100	100	100	100	100	100	100	100	100	100

Source: Random sample of 12,000 student financial aid records.
Note.—Prepared by: Applied Management Sciences and Alexander Ratnofsky, USOE, Aug. 10, 1979.

DISTRIBUTIONS OF "INDEPENDENT" LOAN RECIPIENTS BY INCOME

[In percent]

	4 yr public		4 yr private		2 yr public		2 yr private		Proprietary	
	NDSL	GSL	NDSL	GSL	NDSL	GSL	NDSL	GSL	NDSL	GSL
Percent of recipients who are independent	27	28	14	17	54	60	18	9	48	29
Family income distributions for independent loan recipients:										
$0 to $3,000	50	46	57	52	44	52	38	29	47	45
$3,000 to $6,000	29	17	19	16	28	32	17	12	31	26
$6,000 to $9,000	14	17	8	10	17	8	33	24	14	14
$9,000 to $12,000	4	6	9	10	8	5	8	0	4	2
$12,000 to $15,000	3	7	2	5	1	0	0	12	2	5
Over $15,000	1	7	6	8	1	3	4	23	1	8
Total	100	100	100	100	100	100	100	100	100	100

Source: Random sample of 12,000 student financial aid records.
Note.—Prepared by: Applied Management Sciences and Alexander Ratnofsky, USOE, August 10, 1979.

Mr. BUCHANAN. I expect the State agencies can provide the information in some cases.

Mr. FORD. We have been going for some time. I appreciate the patience of the panel.

Mr. BUCHANAN. I know some of you have some other things you want to say. I hate to cut you off.

Mr. FORD. Suppose we recess for today with an invitation for all of you to add to today's record the thoughts that have been stimulated by the discussion.

[Whereupon, at 1 p.m. the subcommitte hearing adjourned, to reconvene at 9:30 a.m., Thursday, August 2, 1979.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF THE COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

Mr. Chairman and Members of the Subcommittee, I am Steven L. Abrams, Acting National Director of the Coalition of Independent College and University Students, also known as COPUS. The Coalition is a chapter-based association representing students at over 100 colleges and universities across the country. I welcome this opportunity to express the views of our student constituents on the student loan provisions of the draft reauthorization bill submitted by the Secretary of Health, Education, and Welfare to Congress on July 18, 1979.

Unfortunately, in its bill, the Administration is showing the back of its hand to the recommendations made by the Coalition at congressional hearings and at seven of ten regional hearings conducted across the nation by the Department of Health, Education, and Welfare itself. The bill rejects the advice of other, Washington-based student organizations, as well as the formal recommendations of the student leaders from campuses across the country who gathered at last February's Student-Commissioner Conference sponsored by the Office of Education. Finally, the bill repudiates in large part the Administration-conceived Middle-Income Student Assistance Act (MISAA) passed by Congress just last year.

Mr. Chairman, the Coalition believes that the Administration proposal tears at the roots of the tested aid program we already have, and so we oppose it.

If two new programs are established, centralized in Washington and capitalized by the federal government through a new agency, as the Administration bill proposes, we are likely to see, not an elimination, but a proliferation of the curses of bigness—fraud, abuse, and waste. A new bureaucracy will not necessarily lead to simplification or reduction of costs. Rather, the Administration bill increases reliance on loans, resulting in greater participation and increased costs. Capital will not be any less expensive through a federal lender: if obtained off-budget, money costs the feds about as much as it does anyone else. If some suggest that their money costs less, we suggest you look closely, for you are likely to find the difference being passed off to students in the form of increased interest rates. In short, when it comes to the treatment of lenders and guarantors, this bill, politically, is an unthinkable thought. By eliminating the preferable local state agencies, the bill creates new programs, adds a new bureaucracy, and increases federal spending.

What is more, Mr. Chairman, the bill expands availability to all eligible students by creating a family-based loan program. The Coalition opposes increasing reliance on loans in this way. If a needy student cannot save the required $700 through summer job earnings (which many cannot because they have to contribute to their own support during the summer months), then he or his family must borrow the difference at a high rate of interest. With respect to parents, this bill may add to, instead of relieve, the growing burden on parents to finance the educations of their children. There is a likelihood that the parental contribution will increase because of the existence of a new program especially designed for their use. And in contradiction to MISAA, which rejects "needs analysis" as a basis for lending money, parents' contributions will have to be mathematically determined—costing them even more in "needs analysis" fees.

If the full body is offered the option of relying on loans almost exclusively to meet rising college costs, then there will be little incentive to fund other sources of student aid. The only incentive that will exist is for schools to jack up their tuitions to the outer limits because of an apparently elastic source of college revenue: student loans.

Mr. Chairman, also under the bill, interest rates are set annually based on medium-term Treasury borrowing rates plus 1 percent. Interest would accrue for loans, and undergraduate loan maximums would be increased. As a result of this, interest rates would suddenly shoot up. We believe one can responsibly justify the government setting a low rate of interest for a student because the government has an interest in the education of that student. The government has an interest because it desires to maintain national development in a complex society. It has an interest because some students will choose a career in government service. And it has an interest because the government realizes a positive net balance in the end—through the increased tax revenues of the higher salaries of its college-educated citizens.

As for the repeal of the interest subsidy in the bill, this marks yet another turnabout from MISAA, and we oppose it. Like the "no needs analysis" policy of MISAA, the interest subsidy is a recognition that college costs have become increasingly burdensome to all American families. Any sweepaway of the in-school subsidy would be politically dangerous and encourage support for ill-advised assistance measures, such as tutition tax credits, which the Administration vigorously opposed last year. Furthermore, the Coalition strongly opposes the accrual of student loan interest while the student is in school, as there is, again, no justification for increasing loan costs to students. Finally, we feel that the aggregate maximum figure for undergraduate loans is too high and will only be still another incentive for hard-pressed students to increase their reliance on loans.

Even the repayment provisions of the Administration bill go in the opposite direction we would like. Although there is a central agency, it is unclear whether student borrowers have the option of consolidating repayments from the two loan plans. It is also unclear, as recent findings indicate, whether institutions cannot collect payments better than a central agency when given certain incentives. What is certain is the lack of an option for students to make graduated income-contingent payments. Also absent from the bill are features, as in the National Defense Student Loan program, for relaxing some of the repayment burden in exchange for serving one's community. Finally, we believe that the best way legislation can ensure better loan collection from students borrowing for their first time is to include consumer information provisions, which are also missing, such as requiring exit interviews and the listing of the make-up of students' aid packages to prevent the university from baiting students with grants and switching them unexpectedly and resentfully to loans. The way to ensure collections is not by raising the spectre of potential IRS-type involvement as a massive "big brother" agency does.

Mr. Chairman, in conclusion, the Coalition is disappointed with the Administration bill. The President is building a new foundation for student financial assistance, we fear, by digging up the cornerstone of the existing program—grants. Even the changing of the names of the old loan programs—to "Basic" and "Supplemental" in the fashion of the "Basic" and "Supplemental" opportunity grants—is, though symbolic, a significant alteration. For, while we support loan programs as a warranted way to meet the needs of middle-income students, we see in this bill the seeds of a system that will first overgrow and then uproot the other, preferred forms of assistance for low-income students. If money is loaned in this manner by the government, the Coalition of Independent College and University Students cannot lend its support.

REAUTHORIZATION OF THE HIGHER EDUCATION ACT AND RELATED MEASURES

Part 6—Student Financial Assistance: Loans

THURSDAY, AUGUST 2, 1979

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:37 a.m., in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Simon, Weiss, Ratchford, Bailey, Perkins (ex officio), Buchanan, Edwards, Tauke, and Petri.

Staff present: Thomas R. Wolanin, staff director, Patricia F. Rissler, deputy staff director, William C. Clohan, assistant education counsel (minority), and Jennifer W. Vance, minority legislative associate.

Mr. Ford. The Subcommittee on Postsecondary Education will now come to order for the purpose of continuing hearings on the reauthorization of the Higher Education Act and related measures.

Today, our hearing will focus on Senate bill 1600, the National Student Loan Reform Act of 1979.

This legislation, known as the Kennedy-Bellmon bill, was introduced on July 30 by Senator Kennedy with the cosponsorship of 18 other members of the Senate—primarily Senator Bellmon, of course.

Senate 1600 proposes dramatic and fundamental changes in the Federal student loan programs. And its consideration at this particular time in our hearings is very appropriate inasmuch as we have now heard from all of the educational associations expressing an interest in changes in the loan programs, as well as the administration spokesmen now for several days, explaining their loan proposals.

Under the program contained in S. 1600, which creates an expanded Student Loan Market Association, which would raise capital through the Federal Financing Bank and allocate it through the State guarantee agencies to postsecondary institutions, loans to individual students would continue to be, or would, in fact, be originated on the campus. Sallie Mae and the State agencies would assume the responsibility for collections. These loans would have substantially different loan limits, interest charges and repayment terms than the current programs that they would replace.

The Guaranteed Student Loan program would be changed into a parental loan to provide families with an ability to obtain ready cash to meet the expected family contribution. Although this program would continue to operate much like the current Guaranteed Student Loan program, there would also be substantial modifications in the interest rate and the annual loan limits.

Our hearing today is also most timely because of the very strong family resemblance between the administration's proposals for changing the loan programs and the legislation introduced by Senator Kennedy and his colleagues in the Senate. Although I am quick to observe after a very brief opportunity to examine the outline of Senator Kennedy's bill last night, it sounded almost as if he had anticipated much of the criticism of the administration's proposal that we heard yesterday, although it is clear that some of the things that are bothering people in the education community will be found in this legislation as well.

I am pleased this morning to call as our first witness the senior Senator from Massachusetts, Hon. Edward Kennedy, who is accompanied by the senior Senator from Oklahoma, Hon. Henry Bellmon.

Senator KENNEDY. Thank you, Mr. Chairman, for your warm words of welcome. If it is agreeable to the committee, I would like to yield to my colleague, Senator Bellmon, who is in a markup now with the House of Representatives in the Conference Committee on the Budget, and he would like to make his presentation, and then I will remain for my presentation and respond to such questions as you have.

If that is agreeable with you, then that would be the way we prefer to proceed.

Mr. FORD. Fine. I would call on the gentleman from Oklahoma, Mr. Edwards at this point.

Mr. EDWARDS. Thank you, Mr. Chairman. I just want to thank the witnesses for coming and to welcome them to the committee. in particular I'd like to welcome the senior Senator from my State, Henry Bellmon, who has been a friend for a long time and has an outstanding record in his concern about education as a member of the Oklahoma Legislature, as the Governor of the State of Oklahoma, and as a highly respected Senator. I am looking forward to hearing the testimony and am glad to see him here.

Mr. FORD. Thank you.

Without objection, the statement presented to the committee by Senator Bellmon will be included in full at this point in the record, and, Senator, you may add to it, highlight it, or supplement it, in any way you deem most appropriate.

STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM THE STATE OF OKLAHOMA, ACCOMPANIED BY MS. CAROL COX, AID TO SENATOR BELLMON

Senator BELLMON. Thank you, Mr. Chairman. Let me begin by expressing my appreciation to Congressman Edwards for his comments and to my friend, Paul Simon, for being here this morning. I hope some of the suggestions Senator Kennedy and I have to make will be helpful to the committee in dealing with this important problem.

I would prefer to read my statement. It is fairly brief, and I think it sums up what I have to say better than I could by ad libbing.

I am very happy and proud to join with the distinguished Senator from Massachusetts, Mr. Kennedy, in authoring this legislation. Last August, I introduced S. 3403, which was called the National Student Loan Bank Act. Senators Kennedy and Durkin introduced a bill last session proposing to create a tuition advance fund. There were significant and substantial differences between the two bills, but they had in common the concept that the solution to the problem of capital availability for postsecondary students was for the Federal Government to replace the numerous existing student loan programs with a single direct-loan approach.

Mr. Chairman, a great deal of the work on our side on this bill has been done by Carol Cox, here at the table with me, who will be able to stay and comment on my behalf later, if there are questions.

Senator Kennedy will outline in his statement the structure of the program we propose—including the structure of the proposed expanded Sallie Mae, which under our proposal becomes a student loan bank.

Let me touch on some of the problems in our present student loans programs—and the solutions our bill proposes—which have led Senator Kennedy, me, and a number of other Senators to support this legislation.

First, there is cost. As the chairman and members of the subcommittee know, the Federal cost of the existing student loans programs will increase by a staggering 25 percent over the 2-year period—fiscal year 1978 and fiscal year 1980. If history repeats itself, these estimates of increased cost will prove conservative. As you well know, we are being forced to deal with emergency legislation to lift the cap on the special allowances paid to banks under the Guaranteed Student Loan program—or run the risk that students from low-income families will be left out of the program this fall because banks may be unwilling to lend as much money as is needed at the interest rates now permitted—and, of course, when the supply of bank loans contracts, it is the student with weak connections to the banks who suffers. Under the Kennedy-Bellmon bill, capital availability would be assured by the Federal Government. This would eliminate the potential for this kind of holdup in the future. Preliminary information from the CBO indicates that over time, our bill will cost less than the existing programs. At the same time, there will not be the danger of running out of money; so the students in low-income families will not be left out.

Mr. Chairman, I would like to explain briefly the specific ways this bill will save money. The fastest growing cost in existing student assistance programs is the special allowance, or interest subsidy, under the Guaranteed Student Loan program. Our bill, S. 1600, uses the funds now going for special allowances to offset the cost of increased capital availability. So long as we use a bank-based system as the primary source of student loans, interest subsidies will continue to be a virtually uncontrollable cost.

On the other hand, the Federal Government can borrow at substantially below the commercial lending rate. Using this Federal borrowing power, our bill reduces the cost from the difference between the rate paid by the student borrower and the commercial lending rate, to the difference between the rate paid by the student borrower and the Government's cost of borrowing. This year that difference will amount to about 3½ percentage points.

Interest rates paid by students and their parents under our bill would be somewhat higher than is the case under existing programs. The current interest rate under the National Direct Student Loan program of 3 percent is totally unrealistic in view of today's economy. Our bill would raise that rate to 7 percent. Currently, we subsidize 100 percent of interest for student loans—and for loans made to parents—for the entire time the student is in school.

Under our bill, the inschool interest subsidy would apply only to loans made to students who carry at least one-half normal load and who make acceptable grades, and only to loans made for undergraduate education. Our bill would charge interest on loans made to parents and on loans made for graduate education, but payment of interest on these loans would be deferred until a student graduates.

Second, Mr. Chairman, there is the issue of defaults. I know there are many explanations for the horror stories we hear, but it is my personal belief that no student loan bill or reauthorization can be enacted—nor should it be—without our seriously addressing the question of what can be done to reduce defaults. In this bill, we have taken a lesson from the child support collection program the Government started a few years ago, which has cut down on welfare dependency.

As in that program, Sallie Mae will be able to ascertain from the Internal Revenue Service and from the Social Security Administration the current addresses and places of employment of borrowers. Neither IRS, nor the Social Security Administration, will have any direct role in collections—nor will Sallie Mae have access to IRS and SSA records, but we are convinced that availability of information as to location of borrowers will help hold defaulted repayments to a minimum.

Third, there is the issue of administrative integrity and control. We did not want, Mr. Chairman, to set up a whole new bureaucracy. Neither did we want to force students to go off campus to secure the financing they need for their education. On the other hand, we are convinced that the Department of Health, Education, and Welfare, or the new Department of Education, as the case may be, is simply not equipped—and probably should be equipped—to operate a banking operation.

We chose to build on the existing Student Loan Marketing Association, and on the existing State agency capacity, and on the existing financial aid offices on school campuses around the country. We chose to place the responsibility for servicing and collecting the loans in the hands of the bankers at Sallie Mae—and through contractual arrangements with the State agencies—which have the kind of expertise these activities require.

We have placed the responsibility for determination of student need and for loan origination with college financial aid officers who have direct contact with the students necessary to carry out those functions. Finally, we have chosen to use applications already in use for the BEOG program and thereby cut down on the paperwork involved.

Mr. Chairman, there is one added feature of our bill which is the way in which it tests need—to determine the amount of loans available to the student and parents. We use the test of an expected family contribution to distinguish between loans of convenience and loans of need. In the case of independent students, an expected self-help contribution is used to make this distinction. Making adjustments in repayment schedules, based on after-college income, recognizes reality—that the extent to which a student can repay is a function of after-college income, not of family income before he went to school.

Senator Kennedy and our staffs have been a long time working out our differences and coming to the conclusions represented in S. 1600. I understand, Mr. Chairman, that this committee will soon mark up reauthorization legislation for all existing higher education purposes. I sincerely hope the subcommittee will find the Kennedy-Bellmon bill an attractive alternative to the numerous existing loan programs. In fact, it would please us a great deal to have you incorporate our bill as the loan program in your reauthorization legislation. We would be happy to have our staff work with the subcommittee's staff toward that end.

Thank you again for the opportunity to testify today. I am here to support this legislation. It is true that the Senate Budget Committee is in markup this morning, and I will not be able to stay very long. I appreciate the fact that Senator Kennedy will be able to stay and respond to questions, and I leave it in your capable hands, Senator.

Senator KENNEDY. Fine.

Mr. FORD. Thank you, Senator. We appreciate the fact you are operating on a very close schedule today. We are also appreciative of the fact you were willing to accommodate this committee by appearing on very short notice since we have been striving toward the conclusion of our hearings before the recess, so that that time can be used to draft the legislation. We do appreciate the cooperation you show by coming to this hearing.

Mr. SIMON. Mr. Chairman, just one quick question.

Basically, I think the thrust of this bill is excellent. You and I have labored a long time on the budget. The one thing that does bother me is the off-budget feature of it. Do you have any reaction to that, as a member of the Senate Budget Committee?

Senator BELLMON. Congressman, you and I are in agreement we should keep things on-budget; otherwise, we have a very loose way of knowing what our Federal contribution to the economy is and what the impact of our Federal programs may be on inflation. There is a specific provision of this bill intended to insure that the operation of Sallie Mae will be on-budget, and, therefore, I think this may meet the concern that you so rightly express.

Mr. SIMON. I misunderstood, then, and I am pleased to be corrected. I thank the Chairman.

Mr. FORD. Thank you very much, Senator.

Senator BELLMON. Thank you, Mr. Chairman.

Mr. FORD. Senator Kennedy?

STATEMENT OF HON. EDWARD M. KENNEDY, A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS, ACCOMPANIED BY JAY URWITZ, LEGISLATIVE ASSISTANT TO SENATOR KENNEDY

Senator **Kennedy**. Thank you very much, Mr. Chairman. We are enormously grateful for the opportunity of being able to present these views this morning. I welcome the opportunity to work closely with Senator Bellmon, who, as I think the Members, certainly of the Senate and of this body, understand, has been enormously concerned with the financial implications of this legislation, the budgetary implications of it and he has a strong commitment on the educational aspects of it. We have been joined together in the Senate in a very unique and special bipartisan way with Senators Baker, Boschwitz, Bumpers, Cochran, Cranston, Culver, Danforth, Domenici, Durkin, Helms, Kassebaum, McClure, Metzenbaum, Nelson, Randolph, Riegle, and Simpson, which I think is a pretty broad coalition of not only Democrats and Republicans, but those that might come from different spectrums of their political parties. I think we have hopefully a vehicle here which can strengthen the opportunity for young people to attend universities and also strengthen our educational system.

We are honored that Paul Simon will work with us as a strong member of this committee, and as one who has been continually committed to the cause of education. We look forward to working continuously and closely with him in the future, as a member of this committee, as well as with you, Mr. Chairman, and myself as a member of the Education Committee in the U.S. Senate, where I have served now for some 17 years.

We made a pledge to the people of this country when, even during the ravages of the Civil War, we passed the first Morrill Act in 1862. We set up the first land grant colleges throughout the States to educate our youth in agriculture and mechanics.

We made a pledge to those who risked their lives for our country when, even during the ravages of the Second World War, we passed the G.I. Bill of Rights in 1944. We promised assistance to all G.I.s who returned home and wanted to go to college.

We made a pledge to keep our country strong in 1958, when we passed the National Defense Education Act, which strengthened teaching in our schools and colleges and started scholarship assistance to our college students.

During the years that you have been in the House, Mr. Chairman, we have renewed our pledge, we have strengthened our pledge, and we have deepened our pledge.

We have made great strides in the areas of improving scholarship grants and improving institutional aid. Our focus on these areas, especially that of scholarship assistance, must continue. I would certainly mention my strong commitment to the scholarship assistance. The dependence of the needy on aid to attend school, and the great public good of education, necessitate a strong commitment on our part.

Mr. Chairman, I believe that a federally-supported and subsidized loan program can be an important supplement to such efforts. It is the Federal loan program which is the subject of my testimony today. I believe our loan efforts lag behind our other efforts. But I believe that much can be done to improve our loan efforts.

The National Student Loan Reform Act builds upon many of the same principles which underlie the National Direct Student Loan program. I think it is important to the members of the committee that we are really building on some very solid foundations, foundations which I know this committee has been reviewing and has had some very legitimate questions, but we were building on a structure, and even though this is a departure, I think we have a sound basis to move from. But the present system contains many features which improve upon our current efforts under that program and the Guaranteed Student Loan program, in this way:

It assures the availability of loans to all students who need them. We think this is of very great importance.

Second, it assures an amount which will let all students go to college.

It will make payback mechanisms more flexible so that students will not be suddenly overburdened just as they graduate, when their incomes tend to be lower. I will get into that in greater detail a little later in my testimony.

It will take the loan collection burdens off of the colleges and will cut down on defaults by placing collection responsibility in banking agencies, and I think the members of this committee are very familiar with the comparisons between the rate of collections between the colleges versus the banking agencies. Probably the record of the State of Pennsylvania is really exemplary, I think, in this particular way.

It will provide a supplemental loan program for the parents of college students who are not able to meet the expected family contribution. We believe that is important, some relief for the families, themselves, but to do that in a financially responsible way.

This legislation will cost the same amount as the current student loan programs, which it is reforming: The National Direct Student Loan and the Guaranteed Student Loan programs, and I will just develop that briefly.

Our proposal would work this way: The student loan programs—and I think if we refer up to the yellow chart and follow along with the testimony, it might be easier to understand, although these are certainly concepts which are well familiar to the members of the committee.

The Student Loan Marketing Association—Sallie Mae—would expand its activities. It will raise funds through the Federal Financing Bank for dispersal, through the State education agencies, to colleges and universities. The financial aid officers at the campuses would provide a loan to every college and graduate student who needs one. Need, and the top amount of the loan, would be determined by this formula:

Cost of going to college—tuition, room and board, fees, books, and so forth—minus,

Scholarship and other aid—such as work study funds—granted to the student. Those would be deducted, minus, A reasonable parental contribution. This will be calculated in the manner in which the contribution is figured for the Basic Education Opportunity Grant program so the needs analysis will be analyzed. I won't take the time of the committee, but the staff can review in detail about how that formula works with more children at greater income, but it basically builds on the existing system.

For instance, if a family is earning $15,000, has one child in college and one who is not, and the cost of college is $5,000, the student would get a BEOG of $1,000 and would have an expected family contribution of $800. Other aid, such as an institutional scholarship or college work-study, would also be included. If there were none, then the student, in this instance, could borrow up to $3,200.

The student could borrow less, if, for example, the family decided to contribute more, or if the student used earnings or savings.

Such loans would be due after the student graduated from college or graduate school. We have a provision in the legislation if the parent refuses to participate, for example, so it doesn't work to the disadvantage of a child, but that is a detail which can be developed later.

They would be payable at 7 percent interest, but no interest would accrue during the time that the student is an undergraduate, nor would interest accrue for undergraduate loans while the student is in graduate school. The 7-percent interest figure is the same as that charged under our biggest loan program, the GSL program. While it is higher than that charged under the NDSL program, which is still at 3 percent, we should remember that the prime rate is now over 12 percent. We are still making a substantial contribution by lending money at the 7-percent rate.

The State agencies and Sallie Mae would be responsible for collection of the loans. I mentioned that earlier. They would be able to consolidate various loans that the student had taken into one repayment. They would also be able to provide optional repayment terms to the student—adjusting the time repayment for the size of the loan, graduating the repayment schedule, and providing for much lower payments where a student's income is low. We spell that out in greater detail. There is a good deal of flexibility in this area, both in terms of the time, the rate of payback, also the income of the students, themselves, and we welcome the opportunity for the staffs to develop those formulas with the committee. But we think they particularly respond to both the educational and financial experience of students.

Parents would be able to borrow an amount up to the parental contribution from private lenders. This would be a new source of loan availability. This loan would be guaranteed by the Federal Government. Parents would pay the Treasury rate minus 1 percent, while the banks would get the "special allowance" for these loans that they now get under the Guaranteed Student Loan program.

This proposal is better able to achieve our educational goals than do the current programs.

Today, the simple fact is that nobody can know if he will get the loan he or she might need to go to college. Because of this gamble, many students may not be able to go to college. Because of this gamble, many students are dissuaded from going to the school of their choice.

We do not know how many people want Guaranteed Student Loans but are unable to get them. But we know many people are turned away. This is an important point, Mr. Chairman. In certain regions of the country, like the West, few banks participate. You have anywhere from 12 to 15 percent of the students in California, and the Bank of America refuses to participate in this program. This is true in other different regional areas of the country, and we could provide some supplementary information on that program.

In certain cycles in the economy, such as the current period, competing demands for capital make loans difficult to obtain in many places. And in all regions and in all cycles, banks have an incentive to lend to better credit risks and those who are more likely to establish other relationships with the bank. Some 70 percent of the loans are made to those who have a prior relationship with the bank. This has been a concern to this committee and our committee over a period of years, and we have made some improvement on that issue, but not as much as we hoped. These people are less likely to need loans than are many who are denied them.

We do not yet know what effect some of the 1976 amendments, and the Middle Income Student Assistance Act, have had on the availability of funds to needier students. The likelihood is that these changes will result in a greater focus on those from families with higher income, now that all families can get the in-school interest subsidy.

But, even if we simply extrapolate from our latest survey of the income of Guaranteed Student Loan recipients, taken before the 1976 and MISAA changes went into effect, we find that the GSL program has not focused on the neediest—46 percent of the loans went to families with incomes below $15,000, which is the same proportion as those families represent in the population.

The NDSL program has more limited funds. These funds are distributed among States in a way which does not always relate to real needs. Needy students in a particular State may have a tougher time getting a loan. The biggest limitation under the NDSL program is simply that at many of the 6,000 schools which award Basic Educational Opportunity Grants, no student can obtain any National Direct Student Loan.

Under the National Student Loan Reform Act, students would be assured that they will get a loan to cover their needs, at all eligible institutions, regardless of region, point in economic cycle, or poorer economic background. I think this is a very important aspect of our program, and we commend it. The financial aid officer will commit a loan to the student on the basis of the formula specific to the student, noted above. That loan commitment would be provided for, automatically, through funds generated through the Federal financing bank.

On the loan amounts, Mr. Chairman, neither the GSL nor the NDSL programs assure that the funds which are provided are related to the need of the student.

Under the GSL program, private lenders can lend up to $2,500 to anyone. This means that the program does not account for the different economic backgrounds of loan applicants. Nor does it account for the different costs of different schools. Every one of us is familiar even within our own district or State of the enormous disparity between the cost of education, and that, in so many instances, is the determining factor as to where a young, talented person would actually choose to continue his or her education.

The amount of the NDSL is usually much smaller, about $700. The actual amount made available depends in large part upon the funds on the campus—which, in turn, depend upon the State allocations, the college's participation level, and the college's collections. It also depends upon the relative demands of other students.

Under S. 1600, the financial aid officer at the campus will determine an amount available to the student on the basis of a formula which accounts for both the economic circumstances of the applicant and the cost of the institution that he or she is attending. These factors, rather than a simple ceiling or factors extraneous to the need of the student, will be determinative. That formula will be: cost of attendance at the institution, minus scholarship and other aid, and also minus a reasonable parental contribution. I continue in my testimony, Mr. Chairman, on the payback provisions. Both the NDSL and the GSL programs have straight mortgage payback provisions. Under NDSL the loan is paid over a 10-year period. Under GSL it is paid in a 5-to-10-year period. In few instances are the terms sensitive to the loan amount or the income level of the former student. This rigidity—which I think we address in our proposal—places burdens on the students just as they are entering the work world. Those burdens place a great weight on the student who tries to meet them; they contribute to student defaults.

Under the proposal introduced today, the borrower will be able to choose among repayment options. If he chooses, he may repay more of the loan at a time when he is better able to do so. The time to repay will be larger if the loan is larger. The student will be able to graduate repayments over the course of time. Repayments will be lower if the student is earning little money; repayment will be cancelled upon death, total disability, and certain public service. It will be postponed if the student goes into the armed services, VISTA, or the Peace Corps.

In the area of defaults, the GSLs are fully guaranteed by the Government. NDSLs are collected by educators rather than financial specialists. I mentioned earlier about the recovery cost and the reasons that we have chosen this particular device. The main loan program, the GSL program, is administered off-campus and by putting student loan programs on-campus, we give greater opportunity for the student to receive counseling by the college financial aid officers and make it easier to consolidate all loans into one repayment schedule.

On the parental programs, Mr. Chairman, the parents are expected to contribute to their children's education, but often they are unable to come up with this contribution. Neither the GSL nor the NDSL program provides funds for parents of college students.

Under the National Student Loan Reform Act, Sallie Mae will guarantee private lender loans to parents for an amount up to the expected parental contribution. Sallie Mae will provide the banks with a special allowance similar to that now provided in the GSL program.

Lenders should be more willing to lend to parents, who are usually more permanent residents in the community.

Mr. Chairman, S. 1600 assures access, provides an amount which is sensitive to need, makes repayment terms more flexible, and provides a parental loan program. It will do more to help us meet our educational goals than do the current loan programs. I might mention briefly here, Mr. Chairman, about the financial trade-offs on this and how we are able to come out at a figure which is comparable to what is being expended at the present time. I will review it just briefly. The students who borrow under the NDSL program currently repay loans at 3 percent; that is about $300 million—although it does obviously create a good many other loans—in terms of the budget. This amount is far below the cost of money to the Government and below the 7-percent rate charged under the GSL program. The new proposal would charge all students 7 percent. So there is a saving there.

Second, the Government today pays a heavy subsidy to private lenders to lend under the GSL, the primary program. They receive the Treasury bill rate, plus 3.5 percent, so you take the Treasury bill, probably 9.5, you add the 3.5, which is 13 percent, and only 7 percent of this is paid by the student. I know there is legislation on the question of bumping against the ceiling, which is a different issue, and I know the members of this committee are familiar with it. But the new proposal shifts the lending to the campuses and uses the Federal financing bank rather than private lenders. The Government will only pay the difference between 7 percent and the Treasury rate. The new parental program should be smaller than the current GSL program, and, in addition, each loan under it will require a smaller subsidy. So it is basically the Treasury rate minus 1 for the parents, which is a good opportunity for the parents, and since it is done through this financing mechanism, it will save resources.

Third, the new program should cut defaults. Such defaults in the NDSL program now total over $700 million.

Fourth, in some instances, where the need is less than the current GSL ceiling, the loan might be smaller than the current subsidized loan.

Mr. Chairman, I would like to briefly cover three other issues and then answer questions that you and the members of your subcommittee might have.

First, the bill systematically accounts for independent students. Such students will be able to get the basic loans at the rate paid by other students. The formula would substitute a reasonable self-help contribution for the parental contribution expected of other students. These independent students would be able to borrow an amount to make up for the self-help expectation. This amount will be available at the campus, but will be repaid at the rate available to parents in the parental loan program.

Second, I believe that the State higher education agencies have an important role to play. State agencies, which enter into contractual relations with Sallie Mae, will distribute funds to institutions, monitor and audit student loan activity, collect loans, provide information and assistance to students, parents, and institutions, and facilitate bank participation in the parental loan program.

Third, the institutions will now be called upon to administer a larger program than they currently administer. They must be given the financial support to do so. Under our proposal, the schools would be able to continue to receive a financial allowance of 4 percent for administering the scholarship, work-study and loan programs, with a ceiling of $325,000. Or, it would receive 4 percent for the scholarship and work-study program, and $30 a person for administering the loan program, with no ceiling. The choice would rest with the institution.

Mr. Chairman, higher education is vital to the future of our country. My predecessor in the Senate, Daniel Webster, noted, "On the diffusion of education among people rests the preservation and perpetuation of free institutions."

I believe that the National Student Loan Reform Act can be very important in providing educational opportunity to the people of our country:

It is good for students.

It is good for parents.

It is good for higher education.

And, it is good for our country.

I think finally, Mr. Chairman, in the other testimony, I think the yellow chart indicates hopefully for the members of the committee to track how the process would work, and I think that the other chart, white chart, really summarizes what we believe are the strengths of the program, that it does give the assurance to the students who need it; it gives the amounts which let the students go to the college of their choice; it makes the loan payback schedule more flexible and realistic in terms of the needs, that we are using a proven system which to date has shown a reduction in the defaults, and it does provide a limited program for loans to the parents to be able to participate in that program, but if those arrangements do not work, it does provide a degree of flexibility for the child so that a child whose parent refuses to participate in it will not be disadvantaged.

There are a number of actuarial provisions in each of these areas which I would hope that both the staffs of Senator Bellmon and myself could go over with your counsel in fleshing out the details of these concepts, but this basically is the approach that has been worked out. We hope that it might be of some interest to the members of this committee.

I would hope my full statement, which is somewhat longer, could be included in the record.

Mr. FORD. Without objection, the prepared statement will be inserted at this point in the record.

[Testimony of Senator Edward M. Kennedy follows:]

TESTIMONY OF SENATOR EDWARD M. KENNEDY BEFORE THE HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION AUGUST 2, 1979

Mr. Chairman, Mr. Buchanan, Members of the Subcommittee on Postsecondary Education, I am delighted to appear before you to testify on S. 1600, the National Student Loan Reform Act of 1979. This act was introduced on Monday by myself, and Senators Bellmon, Baker, Boschwitz, Bumpers, Cochran, Cranston, Culver, Danforth, Domenici, Durkin, Helms, Kassebaum, McClure, Metzenbaum, Nelson, Randolph, Riegle and Simpson. A companion measure has been introduced by Congressman Paul Simon, a member of this Subcommittee. This legislation would broadly reform the federal student loan assistance effort.

Mr. Chairman, I have been a member of the Subcommittee on Education for the 17 years that I have been in the Senate. Through those years, I have felt that educational opportunity is essential to the young people of this country, and to the country itself. Through the years, I have admired the way that you and your subcommittee have worked to make access to a quality education a right for all Americans. I am proud that one of your honorary doctorates came from an institution in the Commonwealth of Massachusetts.

Congress has always regarded the education of our youth as the foundation upon which our country was built.

We made a pledge to the people of this country when, even during the ravages of the Civil War, we passed the first Morrill Act, in 1862. We set up land grant colleges throughout the states to educate our youth in agriculture and mechanics.

We made a pledge to those who risked their lives for our country when, even during the ravages of the Second World War, we passed the G.I. Bill of Rights in 1944. We promised assistance to all G.I.'s who returned home and wanted to go to college.

We made a pledge to keep our country strong in 1958 when we passed the National Defense Education Act, which strengthened teaching in our schools and colleges and started scholarship assistance to our college students.

During the years that you have been in the House, Mr. Chairman, we have renewed our pledge, we have strengthened our pledge, and we have deepened our pledge.

We have made great strides in the areas of improving scholarship grants and improving institutional aid. Our focus on these areas, especially that of scholarship assistance, must continue. The dependence of the needy on aid to attend school, and the great public good of education, necessitate a strong commitment on our part.

Mr. Chairman, I believe that a federally sponsored and subsidized loan program can be an important supplement to such effort. It is the federal loan program which is the subject of my testimony today. I believe our loan efforts lag behind our other efforts. But I believe that much can be done to improve our loan efforts.

The National Student Loan Reform Act builds upon many of the same principles which underlie the National Direct Student Loan Program. But it contains many features which improve upon our current efforts under that program and the Guaranteed Student Loan Program.

It assures the availability of loans to all students who need them;

It assures an amount which will let all students go to college;

It will make payback mechanisms more flexible so that students will not be suddenly overburdened just as they graduate, when their incomes tend to be lower;

It will take the loan collection burdens off of the colleges and will cut down on defaults by placing collection responsibility in banking agencies; and

It will provide a supplemental loan program for parents of college students who are not able to meet the expected family contribution.

This legislation will cost the same amount as the current student loan programs, which it is reforming: The National Direct Student Loans and The Guaranteed Student Loans Programs.

Our proposal would work this way:

The Student Loan Marketing Association (Sallie Mae) would expand its activities. It will raise funds through the Federal Financing Bank for dispersal, through the state education agencies, to colleges and universities. The financial aid officers at the campauses would, in turn, provide a loan to every college and graduate student who needs one. Need, and the top amount of the loan would be determined by this formula: (1) Cost of going to college (tuition, room and board, fees, books, etc.), (Minus 2) scholarship and other aid (such as work study funds) granted to the student, (Minus 3) A reasonable parental contribution. This will be calculated in the manner in which the contribution is figured for the Basic Education Opportunity Grant Program, so only one needs analysis will be required.

For instance, if a family is earning $15,000, has one child in college and one who is not, and the cost of college is $5,000, the student would get a BEOG of $1,000 and would have an expected family contribution of $800. Other aid, such as an institutional scholarship or college work-study, would also be included. If there were none, then the student, in this instance, could borrow up to $3,200.

The student could borrow less, if, for example, the family decided to contribute more or if the student used earnings or savings.

Such loans would be due after the student graduated from college or graduate school. They would be payable at 7 percent interest, but no interest would accrue during the time that the student is an undergraduate, nor would interest accrue for undergraduate loans while the student is in graduate school. The 7 percent interest figure is the same as that charged under our biggest loan program, the GSL Program. While it is higher than that charged under the NDSL Program, which is still at 3 percent, we should remember that the prime rate is now over 12 percent. We are still making a substantial contribution by lending money at the 7 percent rate.

The state agencies and Sallie Mae would be responsible for collection of the loans. They would be able to consolidate various loans that the student had taken into one repayment. They would also be able to provide optional repayment terms to the student—adjusting the time repayment for the size of the loan, graduating the repayment schedule, and providing for much lower payments where a student's income is low.

Parents would be able to borrow an amount of up to the parental contribution from private lenders. This would be a new source of loan availabilty. This loan would be guaranteed by the Federal Government. Parents would pay the Treasury rate minus one percent, while the banks would get the "special allowance" for these loans that they now get under the Guaranteed Student Loan Program.

This proposal is better able to achieve our educational goals than do the current programs.

Loan assurance.—Today, the simple fact is that nobody can know if he will get the loan he might need to go to college. Because of this gamble, many students may not be able to go to college. Because of this gamble, many students are dissuaded from going to the school of their choice.

We do not know how many people want Guaranteed Student Loans but are unable to get them. But we know many people are turned away.

In certain regions of the country, like the West, few banks participate. In certain cycles in the economy, such as the current period, competing demands for capital make loans difficult to obtain in many places. And in all regions and in all cycles, banks have an incentive to lend to better credit risks and those who are more likely to establish other relationships with the bank. Some 70 percent of the loans are made to those who have a prior relationship with the bank. These people are less likely to need loans than many who are denied them.

We do not yet know what effect some of the 1976 amendments, and the Middle Income Student Assistance Act have had on the availability of funds to needier students. The likelihood is that these changes will result in a greater focus on those from families with higher income, now that all families can get the in-school interest subsidy.

But, even if we simply extrapolate from our latest survey of the income of GSL recipients, taken before the 1976 and MISAA changes went into effect we find that the GSL Program has not focused on the neediest—46 percent of the loans went to families with incomes below $15,000, which is the same proportion as those families represent in the population.

The NDSL Program has more limited funds. These funds are distributed among states in a way which does not always relate to real needs. Needy students in a particular state may have a tougher time getting a loan. The biggest limitation under the NDSL Program is simply that at many of the 6,000 schools which award BEOG grants, no student can obtain any NDSL loan.

Under the National Student Loan Reform Act, students would be assured that they will get a loan to cover their needs, at all eligible insitutions, regardless of region, point in economic cycle, or poorer economic background. The financial aid officer will commit a loan to the student on the basis of the formula, specific to the student, noted above. That loan commitment would be provided for, automatically, through funds generated through the federal financing bank.

Loan amount.—Neither the GSL nor the NDSL Programs assure that the funds which are provided are related to the need of the student.

Under GSL Program, private lenders can lend up to $2,500 to anyone. This means that the program does not account for the different economic backgrounds of loan applicants. Nor does it account for the different costs of different schools.

The amount of the NSDL loan is usually smaller, around $700. The actual amount made available depends in large part upon the funds on the campus—which in turn depend upon the state allocations, the college's participation level, and the college's collections. It also depends upon the relative demands of other students.

Under S. 1600, the financial aid officer at the campus will determine an amount available to the student on the basis of a formula which accounts for both the economic circumstances of the applicant and the cost of the institution that he is attending. These factors, rather than a simple ceiling or factors extraneous to the need of the student, will be determinative. That formula will be: cost of attendance at the institution, minus scholarship and other aid, and also minus a reasonable parental contribution.

Loan payback.—Both the NDSL and the GSL Programs have straight mortgage payback provisions. Under the NDSL the loan is paid over a 10-year period. Under GSL it is paid in a 5-10-year period. In few instances are the terms sensitive to the loan amount or the income level of the former student. This rigidity places burdens on the students just as they are entering the work world. Those burdens place a great weight on the student who tries to meet them; they contribute to student defaults.

Under the proposal introduced today, the borrower will be able to choose among repayment options. If he chooses, he may repay more of the loan at a time when he is better able to do so. The time to repay will be larger if the loan is larger. The student will be able to graduate repayments over the course of time. Repayments will be lower if the student is earning little money; repayment will be cancelled upon death, total disability, and certain public service. It will be postponed if the student goes into the Armed Services, VISTA or the Peace Corps.

Defaults.—GSL loans are fully guaranteed by the government. NDSL loans are collected by educators rather than financial specialists. These factors contribute to a relatively high default rate. In the GSL Program the rate is 10 percent; in the NDSL Program it is 17 percent.

Under the proposal introduced today, collection for all loans will be placed in the hands of the state agencies, or, where there is no state agency, or the state agency does not handle such functions, in the hands of Sallie Mae. Experienced financial specialists and collection specialists should reduce the default rate.

Campus focus.—The main loan program, the GSL Program, is adminstered off-campus. By putting student loan programs on campus, we give a greater opportunity for the student to receive counseling by the college financial aid officer. We make it easier to consolidate all loans into one repayment schedule.

Parental program.—Parents are expected to contribute to their children's education. But often they are unable to come up with this contribution. Neither the GSL nor the NDSL Programs provide funds for parents of college students.

Under the National Student Loan Reform Act, Sallie Mae will guarantee private lender loans to parents for an amount up to the expected parental contribution. Sallie Mae will provide the banks with a special allowance similar to that now provided in the GSL Program.

Lenders should be more willing to lend to parents, who are usually more permanent residents in the community.

Mr. Chairman, S. 1600 assures access, provides an amount which is sensitive to need, makes repayment terms more flexible, and provides a parental loan program. It will do more to help us meet our educational goals than do the current loan programs.

The federal outlays required by this program should be comparable to the combined outlays which are made under the NDSL and GSL Programs.

Improvements can be made without increasing costs for the following reasons:

First, students who borrow under the NDSL Program currently repay loans at 3 percent interest. This amount is far below the cost of money to the government and below the 7 percent rate charged under the GSL Program. The new proposal would charge all students 7 percent.

Second, the Government today pays a heavy subsidy to private lenders to lend under the GSL, the primary program. They receive the Treasury bill rate plus 3.5 percent, and only 7 percent of this is paid by the student. The new proposal shifts the lending to the campuses, the uses the federal financing bank rather than private lenders. The Government will only pay the difference between 7 percent and the Treasury rate. The parental program should be smaller than the current GSL Program, and, in addition, each loan under it will require a smaller subsidy.

Third, the new program should cut defaults. Such defaults in the NDSL Program now total over $700 million.

Fourth, in some instances, where the need is less than the current GSL ceiling, the loan might be smaller than the current subsidized loan.

Mr. Chairman, I would like to briefly cover three other issues and then answer questions that you and the members of your Subcommittee might have.

First, the bill systematically accounts for independent students. Such students will be able to get the basic loans at the rate paid by other students. The formula would substitute a reasonable self-help contribution for the parental contribution expected of other students. These independent students would be able to borrow an amount to make up for the self-help. This amount will be available at the campus, but will be repaid at the rate available to parents in the parental loan program.

Second, I believe that the state higher education agencies have an important role to play. State agencies, which enter into contractual relations with Sallie Mae, will distribute funds to institutions, monitor and audit student loan activity, collect loans, provide information and assistance to students, parents and institutions, and facilitate bank participation in the parental loan program.

Third, the institutions will now be called upon to administer a larger program than they currently administer. They must be given the financial support to do so. Under our proposal, the schools would be able to continue to receive a financial allowance of 4 percent for administering the scholarship, work-study and loan programs, with a ceiling of $325,000. Or, it would receive 4 percent for the scholarship and work-study program, and $30 a person for administering the loan program, with no ceiling. The choice would rest with the institution.

Mr. Chairman, higher education is vital to the future of our country. My predecessor in the Senate, Daniel Webster, noted, "On the diffusion of education among people rests the preservation and perpetuation of free institutions."

I believe that the National Student Loan Reform Act can be very important in providing educational opportunity to the people of our country.

It is good for students.

It is good for parents.

It is good for higher education.

And, it is good for our country.

Thank you, Mr. Chairman.

Mr. **Ford**. Senator, as I mentioned at the outset, it is a pleasure to have you here. For some 15 years of my service on this committee, we have been in many conferences together during the years of the development of the many parts of what is now referred to as the Higher Education Act. I know of your continued intense and very direct involvement in the development of the programs on the books and the attempts over the years to improve them to achieve the goals that now seem, when we look back to 1965, to have been sometimes naive.

But, nevertheless, over the years we have gained some experience with respect to how the variables of these programs actually work in practice. I am very pleased that we will have this legislation to consider.

I should mention that the Senator must leave about 10:25 because he has hearings scheduled before his Judiciary Committee at 10:30; so I am going to be brief and ask the members of the committee to do the same.

One final comment, Senator: We are proceeding with reauthorization in a way that is a little bit different than past practice with this committee in that we do not have before the committee a vehicle, a legislative vehicle, a particular piece of legislation. There are numerous pieces of legislation introduced by Members of the House that have been referred to the committee that have been considered during our consideration of reauthorization, but in a deliberate way we first solicited some 50 educational organizations to give us detailed section-by-section criticism and suggestions with respect to the existing law, together with their proposal of a specific way for change and its rationale.

We actually received from well over 60 organizations specific recommendations in addition to the add-ons that have come during the hearings. We have had some 27 or 28 days of hearings thus far, probably some place in the magnitude of 175 witnesses, and have attempted to proceed in a way that makes this available to staff and others who will be working on drafting a piece of legislation for the committee to consider early in September, when Congress reconvenes.

We are particularly happy to have this legislation. We know it was very difficult for you to respond on such short notice to the timeframe that we were operating in, so that as we begin to assemble our legislative package, we have this proposal with respect to loans, which seems to be one of the areas where the greatest interest is focused. We hope this will be considered together with the legislation already introduced and the administration's proposal, which I have agreed to introduce when they get it finalized. I gather that there are some changes being made.

With that, I yield to the gentleman from Illinois.

Mr. SIMON. Thank you, Mr. Chairman.

First of all, I would like to commend you and your colleague, Senator Bellmon, for your leadership in this area. One quick comment and one question only: Brookings Institution shortly is going to be coming out with a study on the productivity question, and one of their conclusions is that the best way to stimulate productivity is not many of the things we read about—changes in the tax laws, and so forth—but to upgrade skills, and it seems to me the thrust of what you are doing here is precisely in that direction.

Then the one question: One of the groups that has contributed a great deal in providing assistance to students is the group of State lending agencies, and there is some concern that they might be frozen out under this kind of an operation. I would be interested in your comments on that.

Senator KENNEDY. I mentioned just briefly in my formal statement the importance of working with the State agencies, and we have carefully spelled out the role in the legislation. We will build on those State agencies. They will maintain an important and vital function in the workings of this particular program, and we, in the fashioning of the legislation, attempted to review each of the various kinds of agency mechanisms, and we reached the conclusion that the State agencies would have an important and significant role, and perhaps I will be able to develop that in greater specificity as we go through, under State agencies, going through Sallie Mae to State agencies, prior to the college, and let me outline that for you in greater detail.

Mr. SIMON. Yes, if we can work out something along that line——

Senator KENNEDY. I am aware of the particular concern some have had, and what I would like to do is spell out in greater detail, or specificity, the relationship of Sallie Mae, how they work with the colleges, and the nature of that particular relationship. I mentioned briefly comments on it during this hearing, but I would be glad to submit it.

The second point I would mention on the area of productivity: also, I serve on the Joint Economic Committee, and we are doing a study on this as well, which we hope will come out, and I believe it, too, is going to come out very closely in terms of upgrading the skills of young people. We are going to look forward to reviewing their recommendations.

Mr. SIMON. Thank you, Senator.

Thank you, Mr. Chairman.

Mr. FORD. I recognize the gentleman from Kentucky, the chairman of the Full Education and Labor Committee, Mr. Perkins.

Mr. **Perkins**. Thank you very much, Mr. Chairman.

I have had much admiration for the Kennedy family for many years. I served on the committee in 1949 and 1950 with the late President of the United States, John Kennedy. I hope to see this gentleman in that same position, personally. Mr. Chairman, I have not had a chance to study the testimony of the distinguished Senator, but I have served with him on conferences which have resulted in tremendous improvement in student assistance programs. We have worked all night together on occasion particularly in the 1972 Conference on the Higher Education bill, where tremendous gains were made.

I have had a chance to review the recommendations of the administration, and to my way of thinking, they go too far in cutting back, in student benefits in the loan program. It would be my hope that we could oppose those parts of the administration's proposal. I will study the gentleman's bill, the Senator's bill, and I look forward to what I know will be an outstanding presentation. It is a great pleasure for me to welcome the Senator here this morning, and I wish him well.

Thank you, Mr. Chairman.

Mr. **Ford**. Thank you.

Senator **Kennedy**. On that very nice warm note, I couldn't hear music like that without taking a minute of my time in responding. As the good Congressman from Kentucky pointed out, he served President Kennedy on the Education Committee long before I think any of us had probably even thought about serving in the Congress of the United States, and the enormous respect for the gentleman that President Kennedy and Robert Kennedy, who served on the Education Committee, and myself, who served on it for 17 years, has been shared by all of the Brothers Kennedy, and I am delighted to see you here this morning.

Mr. **Ford**. Mr. Buchanan?

Mr. **Buchanan**. Thank you, Mr. Chairman. Yesterday, Senator, on the floor of the House I complimented my chairman, Bill Ford, for the unusually workman-like and thorough manner in which he is approaching this important subject in bringing the best minds in the Congress and in education to bear. I think you and Senator Bellmon have made a very fine contribution, and I assure you that after very thorough consideration, I will have lots of questions to ask about it. I won't ask them now, because you are past due at your committee hearing, and I am due on the floor of the House to handle a conference report. So I won't ask you a doggone thing.

Senator **Kennedy**. Thank you very much, Congressman.

Mr. **Ford**. Thank you.

Senator, I would like to observe that just 2 days ago, we took to the floor a package of technical amendments necessary—we were told by HEW—to the distribution of funds during the month of August, as students are returning to and entering school, and it was passed and went to the Senate, and within hours your committee had handled the bill, passed it, amended it, and last night the House was impressed so much by the Senate action that by unanimous consent, the bill was passed with the Senate amendment and presumably is on its way to the President, and because of the action of Chairman Williams and Chairman Pell and your committee and the fantastic cooperation, we may have set a new record in responding to an educational need, and can rest assured, we hope, as soon as the President signs that bill, the money will start flowing toward the colleges and students in the month of August.

On behalf of the committee, we want to thank you as a representative of Senator Pell, Senator Bellmon, and Senator Williams for the cooperation of the committees. Thank you for appearing this morning.

Senator **Kennedy**. Thank you very much.

Mr. **Ford**. Ms. Cox, are you going to stay for a moment to answer some questions?

Ms. **Cox**. Yes.

Mr. **Ford**. I wonder if I could ask if we can shift the original format here and ask if the two people now at the table would stay there while we assemble around you the panel scheduled for this morning and ask you, with us, to respond, if it impresses you as appropriate, to what they have to say about the programs now under consideration and then respond to questions from members of the committee.

We would like to have Jill Conway, president of Smith; Kurt Kendis, policy analyst, University of Pennsylvania, and Stu Ginsberg, of the American Student Dental Association, with the two representatives of Senator Kennedy and Senator Bellmon.

We will start with Ms. Conway.

You do not have a prepared statement, so you may proceed.

STATEMENT OF JILL CONWAY, PRESIDENT, SMITH COLLEGE; KURT L. KENDIS, POLICY ANALYST, UNIVERSITY OF PENNSYLVANIA, AND STU GINSBERG, AMERICAN STUDENT DENTAL ASSOCIATION

STATEMENT OF JILL CONWAY, PRESIDENT, SMITH COLLEGE

Ms. **Conway**. Thank you very much, Mr. Chairman.

I am delighted to be here this morning to be able to share with the committee some thoughts on the proposed legislation. It seems to me that the Kennedy-Bellmon proposal takes all the good aspects of our current system of providing loans for students and combines——

Mr. **Simon**. Could we try the mikes again to see if they are working?

Mr. **Ford**. The gentleman from Alabama suggested that the previous static was coming from someplace in the vicinity of the White House.

Ms. **Conway**. Thank you very much.

I am delighted to be here this morning to be able to share with the committee some comments about the proposed legislation.

It seems to me that the Kennedy-Bellmon proposal really takes all of the strengths of our experience with existing loan programs and combines them with a system for administering the programs which eliminate all of the serious difficulties students now experience.

Students I think suffer from the great variety of lending agencies, the resulting problem of different repayment schedules, and I think one of the strongest aspects of this proposal is the provision for a repayment system which will be smooth and easy to administer, will enable financial aid officers and colleges to provide the sort of counsel for students that is very difficult to provide now and will provide assistance in a form which will meet more effectively the loan requirements of our neediest students and their families.

We find at present at Smith College that approximately a third of our entering freshman class every year has been refused a Guaranteed Student Loan. We find also that there is indirectly some bias working against women students because so many banks will lend only to those with established accounts or an existing relationship with the bank. Women high school students entering college tend to have that relationship much less well-established than males the same age. While I am not suggesting that there is deliberate discrimination in the current loan provisions, nonetheless, the way in which the system is administered tends to work against women.

I think also that the legislation has great strength in providing for parent loans on a scale which is bound to influence the way in which people think about the accessibility of college and college costs.

I have some very minor technical concerns about some aspects of the legislation. These come simply out of our own experience with financial aid programs for our students.

For instance, although we understand that there is good argument for not imposing ceilings on borrowing for students because of the current experience of inflation and the rising cost of college, nonetheless we do find that the existence of some loan ceilings is helpful in counseling students and making them aware of the potential payback responsibilities. So I hope that some further thought might be given to that question.

I am concerned at the provision for interest on loans to graduate students. I think such a provision would create serious problems and that the proposal should be given far more serious thought. In our experience some 47 percent of our students graduate already in debt. Some 65 percent of them go on to graduate school, and I feel that this particular provision would work seriously to disadvantage those going into graduate study in fields such as the humanities, where expected rates of earnings after graduate school are much lower than for many other occupations. I hope some further thought might be given to the negative steering effect on fields of study which the collection of interest on loans to graduate students during their years of study would undoubtedly have.

Also, drawing on our own experience, I would suggest that a little more thought might be given to the expected time of repayment of parent loans. In our experience, with our own privately administered parent-loan program, the longer the date for repayment is deferred, the more difficulty is experienced with collection. Those, however, are very minor technical concerns with proposed plans for organizing a nationally accessible student-loan program which I think reflects long, careful thought and study and a very statesmanlike approach to a national problem.

Thank you.

Mr. FORD. Thank you very much.

Mr. Kendis.

STATEMENT OF KURT L. KENDIS, POLICY ANALYST, UNIVERSITY OF PENNSYLVANIA

Mr. **Kendis**. Mr Chairman, honorable members of the subcommittee, I am grateful for the opportunity to give you my comments concerning the student loan programs and proposed changes in the Higher Education Act.

I hope to contribute to the testimony already presented before the subcommittee in such a way as to correct what I feel is basically some misinformation that has been brought before you concerning Federal student loans, particularly the programs under the aegis of the Higher Education Act.

I am concerned about the priority which other people have stated and listed, the problems and potential solutions to Federal student loans. I am a researcher, I concentrate essentially on human behavioral implications of indebtedness in education. As a researcher, what I feel is a correct priority for the issues in student loans can be reflected in the Kennedy-Bellmon proposal, and that is what I would like to try to do.

I guess as background the first thing I ought to do is ask a very simple question: Why in the face of current growing levels of lending nationwide and potential overwhelming levels of lending of Federal loans to students nationwide in the next years under the middle income student assistance with the technical amendments as they are being passed, why replace the current programs? I think it is a very important question to address at the outset.

I guess quickly I have to look at six principles of my own for a loan program that ought to be mentioned, or at least analyzed.

Very briefly, the first one involves the fact that loans are a part of financial aid and the same goals that we have for financial aid, access, choice, retention, which is the real impact of financial aid for students who would not otherwise have the opportunity, should be part and parcel of the loan programs. We should not exclude certain students in this whole process nationwide and this should be a mechanism of financial aid.

The second principle is that the loan mechanism should be an effective and efficient way to lever the Federal dollar. They should be the most efficient way if our analysis is correct.

My third consideration or principle is that the students themselves ought to consider loans as part of the investment in their own future or the future of the Nation.

My fourth principle is that no matter how theoretically perfect and neat a loan program looks on paper, you have to be capable of administering it. There is no sense in designing a theoretical loan program that is impossible to bureaucratically administrate when it finally goes into operation.

My fifth principle is a little different; it has to do with political realities. The three forces involved in Government activity as we perceive it, and analyzed in these programs, is of course the authorization process, the appropriation process, and the eventual establishment of regulations.

It is foolhardy in my opinion to go ahead with programs and situations where it is impossible to coordinate the three, where authorization is in battle with the appropriation process and the regulations do not coordinate in the long run to achieve the goals of the program.

My sixth principle to me of course is the most important and it is the behavior of the student. Defaults, you can call them defaults, it is a nice accounting mechanism; defaults are in reality a student behavior.

I believe the design of a program can be such to influence student behavior away from defaults, and more particularly delinquencies, which is just as costly to process to society as defaults are. I think it is fair to say, it is my opinion, the current configuration of the Federal loan programs achieve none of these six principles whatsoever.

Student borrowing right now is at a blur. There is a disintermedial effect between student and family borrowing. We are not sure how much family borrowing is actually being channeled through student borrowing. Federal expenditures, although less for loans, are currently beyond standard appropriation abilities; that is, costs of the money loaned this year appear as future appropriations, for other appropriations processes to consider.

Students themselves are not really sure of the role of their loans. We continually hear stories of students who consider loans grants. This perception or poor perception of the role of loans could actually support the feeling of many people, and I hear this a lot nowadays, that our loan programs train bad debtors since we do not properly apprise students of the proper role of loans.

As simple as the administration of loans can be for commercial lenders, the record of performance by the Bureau of Student Financial Assistance, and even some State agencies, though many have good records, has really taken years to even approach adequacy. Now they are indeed approaching more than adequacy. But it is not a simple program to administrate as we see it nowadays. There is a tendency toward more collection.

It seems each suggestion that people make is for more technical adjustments, more tinkering, more technicalities. For the point of view of a 17- to 24-year-old not yet experienced in matters of consumer expenditure and consumer debt this further blurs the issue, further induces behavior which I do not think any of us intended. Student behavior appears to be the least of everyone's priorities in the testimony that I have read and I have heard secondhand before the subcommittee.

Efforts in testimony seem to be directed toward structure, to institutions, to relationships between various bureaucracies. I would like to return to the notion of student behavior, human behavior of young people that we are training to go into society.

Of course, the first behavior is their access to education, their ability to continue their education throughout the 4 years or 5 years or 6 years necessary to complete their program of study.

The second is their choice of career. I think in no way would any kind of legislation want to prevent or construct psychological barriers that prevent young people from choosing the career which is socially optimal. And indeed fears of indebtedness or perceptions of having to pay back these loans, which may or may not be true in terms of the degree of severity of payback, now threaten to induce young people to choose careers they might not otherwise use, income maximizing in the early years rather than doing public service work in the early years of their career if they perceive that burden to be excessive.

It is important to know many young people set their own prices in this world. It does not have to be a physician; it could be someone involved in collective bargaining situations. If there is psychological pressure their behavior might very well have macroeconomic elements in the long run.

The fourth concern about human behavior involves a consumer-debtor; are we training bad debtors? Are people realizing all of a sudden they are in the world and before they receive their first paycheck they have a debt situation which changes the attitude.

The literature talks about people being risk-averse when they start in the world. If we are dealing with students in such a way to have an ever increasing magnitude of debtors as they start into the labor force, are we not shifting the balance from the person who is risk-averse to someone who is quite a bit different?

I would like to translate my concerns into some very simple recommendations and then I would like to reflect on Kennedy-Bellmon and see how they deal with these recommendations.

I think it is important, first of all, that the loan program must be part and parcel of the financial aid process, tied to need as we know it, distinguishing well the role of a family and the role of the student and certainly, as outlined, Kennedy-Bellmon addresses this issue better than any other proposal I have seen thus far.

The second, and in very many ways the most important from some of my research, is the manageability of the repayment of the loans. Senator Kennedy this morning talked about gradual repayment, extended terms. Now we have an anomaly here which is hard for me to justify.

In the NDSL legislation there is provision for some of this. Indeed, many people pay lip service to graduated repayments but it happens to be a mechanism which is not being used right now. It seems to either be forebearance or delinquency or straightline repayments.

The problem as we have seen it in our research is that the first few years out of the college or university situation are the most severe for everyone. I do not care if it is someone with a medical college or community college education, it is the first years when they are setting up their life. I think it is very important that measures such as Kennedy-Bellmon, or whatever legislative alternatives you people on the subcommittee choose, involve something more than just lip service to graduated repayments. I can think of a mandatory option where each student is presented with the option as it is available but the mechanisms are definitely available to us, because I fear if they are not mandated in a certain way they will not be available because of supposed technical difficulties.

The third priority recommendation I would like to make concerns the counseling of students. We currently have a process we call the exit interview, which is supposed to be the catch-all method of counseling a young person on his debt. It occurs at the end of their education.

We also know students have to sign their notes each year. This often occurs in a flurry of activity. In no way, shape, or form, with some notable exceptions of individuals at individual institutions who have taken this as their private crusade, in no way, shape or form do we have adequate counseling of young people with respect to their finances.

The Kennedy-Bellmon bill with its provision for the administrative allowance for the schools provides this opportunity to actually counsel the students. And I urge the members of the subcommitee and, Mr. Chairman, I urge you personally, to consider counseling of students on their indebtedness to be part and parcel of the efficiency of any program of this nature.

My fourth recommendation concerns another fact which many people pay lip service to, that is consolidation of existing loan notes. Our research has just begun in this matter. But the fact of the matter is that no matter what occurs in the current reauthorization efforts, there will be a lag period before new programs take effect. There are currently in the Nation 4 to 6 to 7 million students with Federal guaranteed loans of one form or another. We do not know how many of them have more than one loan from multiple sources.

What we do know, in the health provisions we have some examples of people with five, six, seven loans. Consolidation of existing loan notes into a single note for the purpose of saving cost to the Federal Government, but mostly for inducing proper behavior in young people who happen to be in this situation—someone with six notes has to pay better than 70 checks a year. I wonder what the record is for people who have to do that when they start out. There are bound to be some structural and frictional problems involved. The consolidation of these loans has great potential benefit. I have yet to see that specifically outlined in anyone's proposal.

My fifth recommendation is quite simple. It has to do with the national student loan data bank. No one seems to mention that one of the conceivable proposals, solutions, is that each student have one record for all of his student loans. I am not quite sure anyone specifically mentioned that.

Under all proposals, the consolidation of the information would be a major step in streamlining many of the bureaucratic difficulties. The graduate student's dilemma, let me call it, under all of these proposals continues to be a problem. I have yet to see anyone come forth with a comprehensive notion of the role of graduate students under title IV. All I can do is urge the subcommittee to keep graduate students and their needs in consideration as these bills become formulated.

I cannot see, for example, the graduate students in the humanities continuing under the current structure of GSL where they would truly graduate from their program and achieve the degree without the potential wherewithal to properly set up their lives and repay their loans at the same time.

I guess my last recommendation is not a recommendation at all, it is a suggestion, it has to do with the institutions involved in the game of student loans, the people who play the role. Some of them are college lenders, some of them are banks, some of them State agencies.

We have a Student Loan Marketing Association. Many of them have perhaps reacted too slowly to the education amendments. It

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has taken this long for the amendments of 1976 to really take effect, where the State agencies move forward with their programs.

I urge the subcommittee, in drafting the new reauthorization legislation, to consider those facets of existing institutions which are positive and ought to be kept as the building blocks for what we are going to do in the future.

Thank you, Mr. Chairman.

Mr. **Ford**. Thank you.

Stu Ginsberg for the American Student Dental Association?

Without objection the prepared testimony presented on behalf of the Student Dental Association will be inserted in full at this point in the record, and you may proceed.

[Prepared statement of American Student Dental Association follows:]

ASDA
AMERICAN STUDENT DENTAL ASSOCIATION
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STATEMENT OF
THE AMERICAN STUDENT DENTAL ASSOCIATION
ON
STUDENT LOAN PROGRAMS AUTHORIZED BY
THE HIGHER EDUCATION ACT
Before the
Subcommittee on Postsecondary Education
Committee on Labor and Education
United States House of Representatives

August 2, 1979

Mr. Chairman and Members of the Subcommittee on Postsecondary Education:

My name is Stuart Ginsberg, and I am a third year student at the University of Pennsylvania School of Dental Medicine. As Legislative Representative of the American Student Dental Association (ASDA), I am pleased to have this opportunity to testify on behalf of the 16,000 dental students who are members of our organization. On May 30 Michael C. Chisick, President and Chairman of the Board of ASDA, presented to this Subcommittee our legislative recommendations concerning the reauthorization of those sections of the Higher Education Act dealing with the Federal Student Loan Programs. In today's testimony I will expand on that statement, and specifically address the National Student Loan Reform Act offered by Senators Kennedy and Bellmon and the proposal offered by the Administration on July 19.

In short, ASDA believes that the Administration's proposal will place the future dental student in a financially untenable position. At the present time, dental students are facing a situation where scraping together the annual educationally related costs is becoming an increasingly difficult and awesome task. The Administration's proposal not only would provide inadequate relief from the current problem, it would intensify the situation to crisis proportions.

It is well known that tuition costs and related educational fees have skyrocketed for undergraduate and graduate schooling. Nowhere is this trend more evident than in the health professional schools. Indeed, the average tuition for all American dental schools increased 142 percent in just the past six years! Other health professional students are facing similar increases.

The magnitude of the total annual educationally related costs facing today's dental student is staggering. In academic 1978-79, the mean total educational costs, including living expenses, borne by a state resident student, was calculated by ASDA to be $11,390 for the first year. For non-resident first year dental students, this total reached $12,510. It is estimated that a first year student entering the University of Pennsylvania School of Dental Medicine in September, 1979, will face total educational costs of $16,400. Tuition alone will reach $8,600 for these incoming freshmen, and the University of Pennsylvania is far from being the most expensive dental school. With the proposed termination of federal institutional support to health professional schools, ASDA can only anticipate that this upward spiral of educational costs for dental and other health professional students has not yet run its course.

Complicating this foreboding financial picture, is the fact that the financial aid resources available to dental students are extremely limited. ASDA's review of current grant support revealed only eight sources of direct aid for dental education, each of which bore some restrictions on eligibility. Although scholarships and grants are a viable funding option for students at other levels, a recent survey conducted jointly by the American Association of Dental Schools (AADS) and the American Dental Association revealed that less than 15 percent of the total funds raised by the 1978 dental school graduates surveyed was provided by scholarships and grants.

Along the same lines, it is apparent that the work-study program also is not a viable alternative to meet the financial needs of the dental student. The rigorous full-day curriculum puts a premium on every minute of the student's time. Indeed, during 1978-79, only $35,000 work -study dollars were allocated to the dental school at the University of Pennsylvania, and the school administration encountered difficulties with students resigning the program, finding themselves unable to fulfill the requirements of the program and still perform acceptably in the difficult dental school curriculum.

The previous factors all contribute to the current situation where federal student loans are heavily relied upon by the dental student as the primary source of funding to meet the immediate cost of professional school. In 1973, HEW reported that 64 percent of all dental students attending school in 1970-71 utilized loans to partially finance their education. In 1977-78, 52 percent of the first year class at the University of Pennsylvania School of Dental Medicine received loans. During the same academic year, 59 percent of the first year students attending dental school at the University of Detroit, and 92 percent of the freshman dental students at Oral Roberts University received educational loans. In academic 1977-78, 56 percent of all medical students surveyed by AAMC relied on loans to some extent in financing their medical education.

The results of this heavy reliance by health professional students on educational loans, coupled with the enormous tuition and related costs facing these students has been twofold. First, the AADS has reported that there has been a significant decline in the number of dental school applicants from the socio-economic lower-middle class. Of course, the second result is that recent dental school graduates have been burdened with huge, and increasing, debts.

According to a recent study by the American Association of Dental Schools, the mean debt upon graduation for the 1978 dental school graduate was $12,022. A similar study surveying medical students in 1978 sponsored by AAMC revealed the mean debts of senior students to be $13,800. An even more distressing picture is revealed in the total debts anticipated upon graduation by the first year medical class surveyed in the same study. These students indicated mean anticipated debts of $20,390, with first year students in Northeastern schools indicating anticipated debts of $25,840. In a recent survey of 108 members of the 1978-79 senior class at the University of Pennsylvania School of Dental Medicine who utilized the Financial Aid Office at the dental school, the total debt amassed by these students upon graduation was found to be $2,823,391, an average of $26,142 per student! The smallest debt reported by a respondent to this survey was $15,905, with the other debts ranging as high as $44,880! As with the previously cited medical student study, incoming first year students can only expect larger debt burdens upon graduation.

In 1977-78, 73 percent of all medical students reported some amount of debt. This is contrasted with only 44 percent reporting debts in 1968, when the average debt was $3,050. In 1978-79, 55 percent of those medical students reporting debt anticipated debts

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exceeding $15,000 upon graduation, and 15 percent assumed they will owe more than $30,000. As recently as 1975, these figures showed only 30 percent of the students anticipated debts greater than $15,000, and only 3 percent expected to owe more than $30,000.

At the present time, health professional students are eligible for four Federal Student Loan Programs: the Health Professions Student Loan Program (HPSL), the Health Educational Assistance Loan Program (HEAL), the GSL, and the NDSL. In the most recent draft proposal for health manpower legislation engineered by the Health Resources Administration of HEW, it was recommended that both the HPSL and HEAL loan programs be discontinued without replacement.

Over the course of the past several years, ASDA has fought against the continued slashing of appropriations for the HPSL program. In fiscal year 1975, $36,000,000 were appropriated for this loan program. The appropriations figure dipped to $24,000,000 in fiscal years 1976 and 1977, to $20,000,000 in fiscal year 1978, and was merely $10,000,000 in fiscal year 1979. In the Administration's 1980 budget proposal, no additional funds were requested for the HPSL program.

Now this Subcommittee is faced with the Administration proposal to exclude health professional students from eligibility in the proposed replacement for the NDSL program, the Basic Loan Program. Therefore, within the past few weeks, we have witnessed the proposed termination of three of the four loan programs currently available to health professional students.

By excluding the health professional students from eligibility under the Basic Loan Program, the Administration has chosen to ignore the vital role played by the NDSL program in completing the student's financial aid package, and either is ignoring or is not aware of draft proposals released by this same Administration advocating the repeal of these other two loan programs.

Although dental students have only recently become eligible for funding under the NDSL program, at many schools this loan source has become indispensable. According to AADS, 18 percent of all 1978 dental graduates received some loan support through the NDSL program. The Association of American Medical Colleges has reported that in 1977-78, 11 percent of all medical students received aid from this loan source. Indeed, at the University of Pennsylvania, health professional students rely quite heavily on the NDSL program. In 1977-78, 278 students at the dental school were awarded over $620,000 in NDSL loans. During the 1978-79 academic year, nearly 300 dental students received about $815,000 in NDSL support. In 1978-79, 200 veterinary students at the University received about $600,000 in NDSL loans. Therefore, it is apparent that this loan source is vital for the continued financial support for many health professional students.

ASDA believes that in light of these developments, it is unreasonable and short-sighted for the Administration to propose a student loan package which excludes health professional students from participating in the Basic Loan Program. ASDA further believes that the Kennedy-Bellmon National Student Loan Reform Act addresses this threat.

The Kennedy-Bellmon bill provides for the eligibility of all students under the low-interest student loan section. The fact that such loans are solely need-based, carrying no loan ceiling provisions, make this package a very viable program for dental students confronting the enormous costs I referred to earlier. For example, even if dental students were eligible for the Administration's Basic Loan Program, the loan ceilings mandated, especially the aggregate limit of $25,000 for both undergraduate and graduate study, would still present a financial barrier for those students requiring the huge amounts of immediate funding necessary for dental education in today's market.

In the area of interest provisions, we again find fault with the Administration's proposal, and believe the Kennedy-Bellmon bill to be a more reasonable approach. Under the proposed Administration student loan package, dental students, eligible only for the Supplemental Loans, would be faced with interest charges at the rate of the Treasury Bill plus 1 percent. On March 26-28, 1979, ASDA representatives campaigned in Washington, D.C. to demonstrate that the HEAL program is a financially disastrous alternative for finding health professional students. In yesterday's testimony, Dallas Martin of the National Association of Student Financial Aid Administrators characterized the new Supplemental Loan Program as being "tailored after the HEAL program", and ASDA must agree with this assessment. ASDA strongly opposes this proposal on the grounds that this unreasonable interest rate will only serve to compound the enormous debt problem now facing health professional students.

ASDA again suggests the Kennedy-Bellmon package as a reasonable solution. Under this proposal, dental students would be eligible for loans carrying a 7 percent rate of interest. On May 30, ASDA recommended before this Subcommittee that 7 percent is a reasonable interest rate, and we reaffirm our support for it at this time.

ASDA also believes that the undergraduate in-school interest subsidy provided for in the Kennedy-Bellmon bill is crucial in controlling the growing educational debts confronting today's student. We note, however, one deficiency with respect to the Kennedy-Bellmon proposal. Namely, its failure to provide in-school interest subsidies for graduate students. The Administration's proposal also suffers from this shortcoming. We see no compelling reason for graduate students to be excluded from this benefit. We believe that this provision is especially vital for poorer health professional students, given the enormous costs, and current debt burdens incurred by these students, and that it should be a component of any student loan package supported by this Subcommittee.

ASDA believes that the Kennedy-Bellmon bill is preferable over the Administration's proposal in several other respects. The Administration has proposed reducing the post-graduation grace period to four months. The Kennedy-Bellmon bill allows for a nine month grace period after graduation, a more reasonable time period to allow for job hunting in today's job market. The National Student Loan Reform Act also includes graduated repayment options, available at the borrower's request. On May 30, ASDA recommended that such a provision be included in any new loan programs.

Although both loan proposals, that of the Administration, and the Kennedy-Bellmon bill, allow for parental participation in the guaranteed loan program, the interest provisions of the Kennedy-Bellmon bill are far superior to the Administration's interest rate of the Treasury Bill plus 1 percent, and make this a more viable alternative for parental financing of education. In addition, such provisions as extended repayment periods for low income individuals, and repayment period allowances for individuals seeking, but not finding, employment after graduation, add to the benefits offered under the Kennedy-Bellmon loan package.

In closing, I would like to state that dental students, and other health professional students, are currently confronting real, severe, obstacles in financing their professional educations. The situation has reached the unfortunate point where it appears that students from lower-middle class socio-economic families are finding it almost impossible to raise the funds necessary to attend the professional schools. The Administration's proposals will provide no relief for health professional students. ASDA greatly prefers the package offered by Senators Kennedy and Bellmon, and believe that they have developed a reasonable, well-conceived approach for restructuring the federal student loan programs.

Thank you.

STATEMENT OF STUART GINSBERG, AMERICAN STUDENT DENTAL ASSOCIATION

Mr. GINSBERG. Thank you.

Mr. Chairman and members of the Subcommittee on Postsecondary Education, my name is Stuart Ginsberg, and I am a third year student at the University of Pennsylvania School of Dental Medicine. As legislative representative of the American Student Dental Association (ASDA), I am pleased to have this opportunity to testify on behalf of the 16,000 dental students who are members of our organization.

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Along the same lines, it is apparent that the work-study program also is not a viable alternative to meet the financial needs of the dental student. The rigorous full-day curriculum puts a premium on every minute of the student's time. Indeed, during 1978-79, only $35,000 work-study funds were allocated to the dental school at the University of Pennsylvania.

The results of this heavy reliance by health professional students on educational loans, coupled with the enormous tuition and related costs facing these students, has been twofold.

First, the AADS has reported that their has been a significant decline in the number of dental school applicants from the socioeconomic lower middle class. Of course, the second result is that recent dental school graduates have been burdened with huge, and increasing, debts.

According to a recent study by the American Association of Dental Schools, the mean debt upon graduation for the 1978 dental school graduate was $12,000. A similar study surveying medical students in 1978 sponsored by AAMC revealed the mean debts of senior students to be $13,800. An even more distressing picture is revealed in the total debts anticipated upon graduation by the first-year medical class surveyed in the same study. These students indicated mean anticipated debts of $20,390, with first-year students in Northeastern schools indicating anticipated debts of $25,840.

In a recent survey of 108 members of the 1978-79 senior class at the University of Pennsylvania School of Dental Medicine who utilized the Financial Aid Office at the dental school, the total debt amassed by these students upon graduation was found to be $2,823,391, an average of $26,142 per student. The smallest debt reported by a repsondent to this survey was $15,900, with the other debts ranging as high as $44,880. As with the previously cited medical student study, incoming first-year students can only expect larger debt burdens upon graduation.

At the present time, health professional students are eligible for four Federal student loan programs; the health professions student loan program (HPSL), the health educational assistance loan program (HEAL), the GSL, and the NDSL.

In the most recent draft proposal for health manpower legislation engineered by the Health Resources Administration of HEW, it was recommendationed that both the HPSL and HEAL loan programs be discontinued without replacement.

Now this subcommittee is faced with the administration proposal to exclude health professional students from eligibility in the proposed replacement for the NDSL program, the basic loan program. Therefore, within the past few weeks, we have witnessed the proposed termination of three of the four loan programs currently available to health professional students.

By excluding the health professional students from eligibility under the basic loan program, the administration has chosen to ignore the vital role played by the NDSL program in completing the student's financial aid package, and either is ignoring or is not aware of draft proposals released by this same administration advocating the repeal of these other two loan programs.

Although dental students have only recently become eligible for funding under the NDSL program, at many schools this loan source has become indispensable. According to AADS, 18 percent of all 1978 dental graduates received some loan support through the NDSL program. Indeed, at the University of Pennsylvania, health professional students rely quite heavily on the NDSL program. During the 1978-79 academic year, nearly 300 dental students received about $815,000 in NDSL support. Therefore, it is apparent that this loan source is vital for the continued financial support for health professional students.

ASDA believes that in light of these developments it is unreasonable and shortsighted for the administration to propose a student loan package which excludes health professional students from participating in the basic loan program. ASDA further believes that the Kennedy-Bellmon National Student Loan Reform Act addresses this threat.

The Kennedy-Bellmon bill provides for the eligibility of all students under the low-interest student loan section. The fact that such loans are solely need-based loans, carrying no ceiling provisions, make this package a very viable program for dental students confronting the enormous costs I referred to earlier.

For example, even if dental students were eligible for the administration's basic loan program, the loan ceilings mandated, especially the aggregate limit of $25,000 for both undergraduate and graduate study, would still present a financial barrier for those students requiring the huge amounts of immediate funding necessary for dental education in today's market.

In the area of interest provisions, we again find fault with the administration's proposal, and believe the Kennedy-Bellmon bill to be a more reasonable approach. Under the proposed administration student loan package, dental students, eligible only for the supplemental loans, would be faced with interest charges at the rate of the Treasury bill plus 1 percent.

On March 26 to 28, 1979, ASDA representatives campaigned in Washington, D.C. to demonstrate that the HEAL program is a financially disastrous alternative for funding health professional students. In yesterday's testimony, Dallas Martin of the National Association of Student Financial Aid Administrators characterized the new supplemental loan program as being tailored after the HEAL program, and ASDA must agree with this statement. ASDA strongly opposes this proposal on the grounds that this unreasonble interest rate will only serve to compound the enormous debt problem now facing health professional students.

ASDA again suggests the Kennedy-Bellmon package as a reasonable solution. Under this proposal, dental students would be eligible for loans carrying a 7-percent rate of interest. On May 30, ASDA recommended before this subcommittee that 7 percent is a reasonable interest rate, and we reaffirm our support for it at this time.

ASDA also believes that the undergraduate in-school interest subsidy provided for in the Kennedy-Bellmon bill is crucial in controlling the growing educational debts confronting today's student. We note, however, one deficiency with respect to the Kennedy-Bellmon proposal; namely, its failure to provide in-school interest subsidies for graduate students. The administration's proposal also suffers from this shortcoming.

We see no compelling reason for graduate students to be excluded from this benefit. We believe that this provision is especially vital for poorer health professional students, given the enormous costs and current debt burdens incurred by these students, and that it should be a component of any student loan package supported by this subcommittee.

ASDA believes that the Kennedy-Bellmon bill is preferable over the administration's proposal in several other respects.

The administration has proposed reducing the post graduation grace period to 4 months. The Kennedy-Bellmon bill allows for a 9-month grace period after graduation, a more reasonable time period to allow for job hunting in today's job market. The National Student Loan Reform Act also includes graduated repayment options, available at the borrower's request. On May 30, ASDA recommended before this subcommittee that such a provision be included in the new loan programs.

Although both loan proposals, that of the administration and the Kennedy-Bellmon bill, allow for parental participation in the guaranteed loan program, the interest provisions of the Kennedy-Bellmon bill are far superior to the administration's interest rate of the Treasury bill plus 1 percent, and make this a more viable alternative for parental financing of education.

In addition, such provisions as extended repayment periods for low-income individuals, and repayment period allowances for individuals seeking but not finding employment upon graduation, add to the benefits offered under the Kennedy-Bellmon loan package.

In closing, I would like to state that dental students, and other health professional students, are currently confronting real severe obstacles in financing their professional educations. The situation has reached the point where it appears that students from lower-middle class socioeconomic families are finding it almost impossible to raise the funds necessary to attend the professional schools.

The administration's proposals will provide no relief for health professional students. ASDA greatly prefers the package offered by Senators Kennedy and Bellmon, and believe that they have developed a reasonable, well-conceived approach for restructuring the Federal student loan programs.

Thank you.

Mr. Ford. Thank you very much.

Mr. Kendis, I found your approach to analyzing student aid a very refreshing one because at our request we have had previous witnesses tied down to very specific legislative type proposals.

You mentioned that student behavior is one of the least-considered factors in fashioning student aid programs.

I am not sure that that is correct, but I would agree that it is probably the least understood factor and that in my years on this committee we have functioned mostly on the basis of the individual experiences and prejudices of the members of the committee, some groups that have come before us, spokesmen for groups, without benefit of any real study of the phenomenon of default, for example, from the student's point of view.

My predecessor as chairman of this committee and I waged for some time an unsuccessful legislative battle over the very specific issue of whether or not a student loan was the same as any other loan when considered under the provisions of the Bankruptcy Act.

We were surprised to find that the education community was not as willing as we were to assume that students were not much different than anybody else when it came to making that kind of an important decision in their life. We were actually, on more than one occasion, overwhelmed on the floor by the simplistic approach that students have a tendency to look for a way to ripoff the system, and that there was massive loss to everybody concerned as a result of this particular ripoff.

Another committee of the House, thanks to an amendment we succeeded in getting in 1976, was given a year to study the phenomenon. Without benefit of the overwhelming presence of professionals in education, it came to the conclusion, based on their study that our hunch had been correct, that is, Mr. O'Hara's and mine, and that the motivation that caused the Congress to take the action it did really was not based on the real facts. And when reduced to percentages, the incidence of bankruptcies that could be traced with a deliberate attitude toward a ripoff on the part of the student was so small compared to the other factors that were affecting our inability to collect student loans as to be not really statistically significant.

I raise that because all of us are concerned with the fact that we have very little to go on by way of tackling the problems. In 1976 we responded to some of your concerns with the series of amendments designed around what we call consumer information.

I recall that one of the persuasive arguments during the conference committee was that this will teach them that they have a responsibility to pay back their loan. Again, the same kind of motivation to make sure that students are not deliberately taking advantage of the system seemed to carry the day. And, as you indicated, some of the things that we attempted in 1976 to rationalize the loan programs with respect to the consumers' involvement with that program, assuming the student to be the consumer, have yet to be in effect long enough for us to know what they are going to do, primarily because of the long delays on the part of the administration in implementing the intent of Congress.

Having said that, I ask you this: I am puzzled and troubled, now that Federal aid has reached the magnitude that it has in terms of its percentage of the total cost of higher education, with the fact that we have to be very sensitive to pursuing the course that seems to signal all of the other decisionmakers with respect to the allocation of costs for higher education, that we are going in a particular direction that they ought to follow.

I have heard many people, just as the statement here on behalf of the dental students, urging that students be allowed to borrow money. One of the concerns I have is a concern that was really intensified with the proposal that came out of Boston, and occurs every once in a while, about creating a whole class of people coming from low- or middle-income people who will be perpetually indentured to the Federal Government. My concern is one of what that does to create a form of behavior or to affect the behavior of our college graduates.

On the one hand, it seems very liberal to say to a student with little or no outside resources to rely on that they should be able to borrow an unlimited amount of money to pursue their education. It appears to me that probably the people who would be inclined to need the largest amount of money are the people least able to count on any assistance in adjusting to what that burden is going to be when they finish school. Because for the low- and to a large extent the middle-income student, particularly the first generation student, the concern is not only the indebtedness that they carry out of school, but the fact that they have to make a conscious decision to seek an education for themselves rather than being a part of a contributing family where there may be substantial family resources. And if you talk to some of the young people that we have participating in the HEP/CAMP program, you find this is almost a 100-percent consideration; what it costs the family to lose the student to school becomes an obligation that the student carries with him.

I am worried about what happens when we expand loan programs to the point where we send the people who might have the strongest motivation to go to the areas that most need them, particularly in health care, but not only in health care, send them out of school under circumstances where they have no choice but to seek the most profitable form of employment because if they are ever going to get far enough out of debt to establish a family, they have to consider the reality of this very heavy obligation they are leaving school with.

I have no idea what the magic numbers would be. Kennedy-Bellmon proposal talks about using need as the limit to how much you can borrow. My concern is whether or not we would be saying to a State legislature in Pennsylvania, if an unlimited amount of money was available on the basis of needs—and I say Pennsylvania because you are from the university—whether or not this would result in a signal to them that they could relax their own efforts and, similarly to institutions, would this be an encouragement to increase tuition and relax institutional help for students because the gap could be made up?

Because we would be saying, first, your students are guaranteed that they are going to get a loan. Second, the guarantee carries to the extent of lending whatever amount of money is necessary to make up the difference between their other resources and the real cost.

As has been mentioned by the president of Smith this morning, the limitation has a different use than we sometimes think of in counseling students. It gives them some sort of a target to understand when they are reaching the outer limits of what it is practical and reasonable for them to undertake as an obligation.,

What kind of dangers—these are hunches I am working from again, accumulated over the years. What kind of dangers do you perceive as a behavioral scientist, if I can use that term, in sending that kind of a message?

Am I being overly pessimistic in expecting we might produce results beyond that which is anticipated based on our past experience?

And finally, do you have evidence of the impact that the existence of the indebtedness has on career choice for students?

I have spent years here trying to figure out how much you get young people attracted to the Peace Corps, attracted to VISTA, attracted to all kinds of other services. And we have used various kinds of inducements, nothing as effective as the original inducements at the beginning of those programs, to appeal to the natural altruism of young people. But nevertheless, we have developed all sorts of approaches to use Federal programs to encourage people to make a contribution that is not related to self-development in terms of income. Are we going in the opposite direction if we take the very people who are most likelv to respond to that appeal and let them borrow too much money?

And what happens to them if they do?

Mr. KENDIS. You have touched upon a large area and many points in that area. You have also highlighted the fact that the data we have, those of us in the research community, is spotty at best.

I have to first, Mr. Chairman, remind you that you provided us a phenomenal piece of data on human behavioral work when you requested a study from the Comptroller General, to look at the bankruptcy files. I do not remember the year. At that point in time we saw what seemed to me to be an outrageous number of people who were coincidentally involved in small business failures, which told me at that point in time there were certain counseling processes that should have gone on when the young man or woman left school.

The notion of what is a manageable debt level happens to be the focus of some of my work currently at this particular moment in time. As I go through the data, there is a good study done by Dwight Horch at ETS, but it has only begun to scratch the surface, to relate what is a manageable debt level for each projected professional income for graduate students. But Horch and people like myself reach the same conclusion, the debt burden, the manageability of debt is greatly exacerbated by straight-line repayment of loans.

The minute you start to contemplate graduated repayments—I am not speaking of income contingency, talking about a slow graduator—you immediately ameliorate a lot of the pressure on that repayment pattern for the student.

As to the issue of manpower allocation and the use of educational activities, I really put quite a bit in print concerning the HEAL and H.R. 4049 and how it came about as a poor mix of educational policy needed to improve manpower allocation.

Very briefly, it is a way to contract people for voluntary service 7 or 8 or 9 years before they are going to be performing it. When you say these are your hunches, you are correct. That lag in time makes it quite infeasible.

Again, we do not have good data on the mechanisms necessary which are sure to induce people into public service—but we have some pretty good hunches. The kinds of hunches that Senator

Kennedy referred to this morning in terms of possible forgiveness for public service, ex post facto, after completing their education, when choosing a career, seems to be the way to go.

What we do when we establish virtually unmanageable debt levels, that the student perceives as unmanageable, what we do in those situations is limit the options of a young person. By putting him under a perceived strain, perceived burden, we are limiting his options. So in the issues of manpower allocation, allocation of young people to either national service or service in the public interest, we do not have any solutions nor do we have data at this particular point in time.

As to the relationship between indebtedness and career choice, the literature is old, it is out of date. We know of dental and medical practitioners in the $10,000 to $12,000 ranges. Only recently are we seeing the kind of levels precipitated, for example, by Georgetown and George Washington Medical Schools increasing tuition.

Those people are just getting out into the world and measuring their career paths. So we could not measure the phenomena that occur as a result. But your hunches are correct, the bent of activity is all the same way, all toward unmanageability, career choice decisions, pricing decisions, decisions to do or not to do pro bono work, that concern people like myself.

We are endeavoring as best we can to gather that data. I would certainly hope that within the next 18 months we would be able to appear before a group like yours and present something a little more concrete than hunches. But again, these are phenomena just appearing on the scene.

The increasing costs of education have a lag period which is that education plus the grace period, plus graduate education, before the people actually make their career choice—and we are just now measuring the impact of those phenomena.

The issue you brought up, which is really kind of a quasi-political dynamics of funding mechanisms in fiscal federalism, where the States may or may not be induced to shell out less money in view of additional Federal funds coming into the pot, is an issue I am not qualified to address.

Mr. GINSBERG. Mr. Chairman?

Mr. FORD. Go ahead, Stu.

Mr. GINSBERG. If I might respond to that point also: In the American Association of Dental Schools, the most recent preliminary study on student anticipated employment upon graduation, this is in the class graduating in 1978, it surveyed all seniors and then those students for whom there was an effect of financial indebtedness on their career choice. The preliminary indication is that only about half as many students are pursuing advanced dental education, only about half are entering professional activities such as teaching and research, and less than half are entering the career world as a self-employed dentist, which has been the traditional mode of employment.

So as you indeed indicate, there is already some data available showing that indebtedness is affecting future career choices. The one that ASDA is extremely concerned about is the teaching and research position because, as you know, in a biomedical field the clinical work depends really on the basic research. If we are not turning out the students to fulfill our needs to do this research, then we cannot make the advances in science in the future that we have made in the past.

If I could also touch on the graduated repayments, as you know, dental students, as with all students, are in a different salary bracket immediately after school. For example, under age 30 the median income of a dentist is $29,008. The mean is a little over $23,000. These are 1977 figures.

Taking these figures and then looking at some of the debt burdens that I referred to earlier, $44,000 debt burden, we share your concerns. Unfortunately, with dental students there are only eight sources of grant aid. ASDA currently is trying to elicit from private foundations, trying to go elsewhere to come up with some sources of grant aid. But right now loans are really the only available funding option to dental students. It is unfortunate, but if limits are placed on the loans, you are indeed completely closing out dental schools and other health professional schools as an option to some of these students.

So, given the present situation, we have to suggest higher loan limits or no loan limits, but of course if we could come up with an alternative funding method, or if you could, we would be most happy to hear it.

Ms. CONWAY. May I also speak to another part of your question, Mr. Chairman, which of course concerned how the panel might comment on your question of the degree of Federal involvement in meeting the cost of higher education and the responsibility of college and university administrations.

I think the present proposal, which would try to link realistic schedules of repayment to indebtedness—and that is an aspect of both the administration proposal and the Kennedy-Bellmon one, though they vary—really speaks very effectively to that need, because all of us who are heads of private institutions concerned with the pricing of education for our students are very definitely going to be deeply concerned about the way in which indebtedness will shape our applicant pool.

So that I do not believe the kind of worry that you expressed, that easy accessibility of loans would automatically induce fiscal irresponsibility in college and university administrations, is in fact well-founded, because our greatest interest is in bringing the most talented and most able students to our institutions. And I think that in order to do that we are all striving to exercise kind of fiscal responsibility that academic institutions simply were not equipped to exercise a decade or 20 years ago.

One of the experiences of the sixties and seventies, and the need to cope with inflation, has been to develop a lot more managerial talent in higher education administration than there once was. If you could see as members of the committee the way we do study our market, I do not believe that irresponsibility would be encouraged in the way you suggest.

I would like also to comment on the steering effect of indebtedness. I think it is perfectly clear in an institution the size of mine, where we have been studying graduating senior classes and their choice of career very systematically now over some 15 years, that indebtedness is very influential in directing people toward the choice of a career, choosing medical school or law school over social work or graduate study in the humanities.

As we study our students' careers after graduation from professional school, indebtedness then seems to have much less bearing on the actual role taken up within the profession. So there may be less need for concern than some of the other of my colleagues here have indicated.

I think it is very evident that graduated repayments, just very simple ability to manage a debt instead of straight line repayments, really solves the problem. We happen to have a strong school of clinical social work and we find that most of our students graduate with at least four different sources of loans. They are entering the profession which is very poorly paid and they—almost none of them can meet the payments.

The college has been working to help them consoldiate those debts. But it is quite clear that even very low-paying professions can support repayment of loans provided there is real counseling involved at the level of assuming the debt and assistance with working out a schedule of payments.

Mr. FORD. I would like to ask Mr. Urwitz or Ms. Cox, who are here for Senator Kennedy and Senator Bellmon, respectively: Do you feel comfortable without a limitation of any kind on the total amount that can be borrowed by a student? This is a departure.

Mr. URWITZ. Yes, I guess I feel capable of explaining what we have technically in the bill and what we do not technically have in the bill.

I think the best thing to do would be probably to have Senator Kennedy respond, and I am sure he would be happy to do so.

Mr. FORD. I am not asking for a philosophy, necessarily. Is there some other kind of control factor involved in your approach that is not apparent, the quick fix of putting $20,000 or $25,000 on the top is easy for us to spot. But absent that language, we look quickly to see what it is that would act as a restraining force, if anything.

Do you have any thoughts about it?

Mr. URWITZ. In the current proposal there is no ceiling below the formula that is proposed. Now, if there are points at which those loans become too massive a burden, I think perhaps some kind of ceiling might be imposed, but the basic thought was that you wanted to have a situation in which students could know that their needs that were not met through scholarships, were not met through the parental contribution, would be met when they chose where to go to school. I don't think, save for the professional schools, which represent a special circumstance, that it should have too great an effect on institutional behavior in the sense that you have declining enrollments in many institutions, and you have a tremendous competition among institutions for the students, and therefore it seems to me they are not as likely to raise the cost of going to college. But in the present proposal there is no ceiling which derives from anything save from the formula, itself.

Ms. COX. To add to that, part of Senator Bellmon's initial concern that led to the development of our bill last year came from an encounter he had with a young woman on an airline, and I am sure you have had problems brought to your attention in a similar way——

Mr. Ford. We will wait until we have heard further details.

Ms. Cox. Maybe that didn't sound quite right. The Senator was on an airplane, coming back to Washington from Oklahoma, and sat next to a girl who was attending an ophthalmology school outside the State. Her sister was in pharmacy school, also outside of the State of Oklahoma. Their father is a postman in Edmond, Okla. They were having enormous difficulty securing loans so that those girls could continue to pursue their chosen careers.

Both of the girls felt they would be able to repay the loans if they could just complete their education. On a postman's income, and with two girls in very expensive educational situations going to school out of State—the State student loan program in Oklahoma only makes loans available to people who live and go to school in the State, and the same was true of the States in which the girls happened to be going to school—they found themselves in a very difficult situation. In putting together our bill last year, and later in working with the Kennedy folks, we found ourselves in a situation in which, had we tried to establish loan limits that would have realistically reflected that family's needs, the loan limits would have looked absurd. We belive families such as this should be able to borrow the money they feel they need. Having made a conscious choice, this family obviously understood the amount of the debt and thought they would be able to repay.

I understand your concern—and I know the Senator is also concerned—that you don't encourage people to incur debts far beyond reasonable expectation of repayment, but it was certainly our hope that using actual cost of education, and using the counseling facilities of the financial aid offices of the schools, and making available to them the resources to provide adequate counseling, that arbitrary loan limits would not be necessary in the legislation.

You may feel this approach is impractical, but that was how we reached our decision. No, our bill does not include any device intended to establish loan limits extraneous to need.

Mr. Ford. There are two kinds of limits involved. As a politician who tends to look at these things through the eyes of a politician, I can imagine myself back in the State legislature when the point is raised. My State, last year, much to the surprise of many people, rather quietly, added another tuition offset, I believe they call it, of $500 for any student who a year ago this September enrolled for the first time in a private school within the State—not public students, but private. The theory being this offsets, in part, what the State was doing by subsidizing tuition at a State institution. This year, the freshmen and sophomores will get it, and it will gradually grow.

I can imagine at appropriation time, if we suddenly said there is no longer a $2,500 limit on what can be borrowed because of our concern to provide more money for the high cost schools, among other things, the temptation, it would seem to me, would be very strong to suggest that you could back off on the scholarship awards that are available to private school students without regard to any characteristic except need on the theory that, say, $300 is now going to be adequate because you can make up the $200 in additional loan. And, after all, it is good Americanism for the kids to borrow their own money to go to school, because underlying all of this is the basic question of how different people regard the beneficiaries of higher education.

There are people who believe that only the people who go to college should pay for college, because, after all, they are the only ones who really benefit from it. There are others who perceive in a broader sense that the society has an interest, and that has been the basis of the growth of Federal involvement, particularly since 1958. We didn't realize that as a result of what people were trying to tell us from college campuses, but as a result of what the Russians did by shooting Sputnik, and our reaction is we have to do something to respond to that; it looks like they have more educated people than we have, and we can't let that happen.

The States, only since the Morrill Act, have been involved in supporting higher education, not as in the case of elementary and secondary, where it has been an accepted responsibililty on their part, and the States are very uneven both in the way in which they support higher education and the degree to which they support higher education.

There is a constant political pressure at the State level to do only that which seems to be necessary to maintain the status quo, judging that also in terms that we have to deal with here, on other kinds of pressures for scarce money. I understand what President Conway said, and I should say for the record that the evidence we have already in this record indicates for the last decade both private and public schools in this country have done an outstanding job in holding down tuition. My recollection is that the overall increase over the 10-year period in tuition cost was around 7 percent. Given any kind of a comparison with cost-of-living indexes or any other index you want to tie it to, that is a phenomenal job that has been done. That means a whole lot of pressure, even when we had a seller's market and the toughest job that schools had was deciding who couldn't get in because there were more people showing up than there was room for.

We expect some benefit in maintaining that kind of discipline by institutions and legislators who set for public institutions the tuition cost by the fact that there will be competition, and so the public institutions will be urging the legislators not to be tempted into shifting the burden to the students through tuition. The dental students, when they were here in May, pointed out instances in some institutions with 50-percent increases in 1 year because the schools tried to hold out until the pressure was just so great, when the dam broke, it really sort of inundated people, and I have to wonder what happened to the pattern of the student body of that school the first few years after that sudden 50-percent increase.

There are all sorts of pressures out there on people of good will, when they see a vacuum, somehow to move into that vacuum, and I am fearful that we will create a vacuum that has an upward pull effect. It is also a concern that the student body has expressed to us very forcefully on more than one occasion.

Ms. Cox. May I respond to that, Mr. Chairman? Senator Bellmon and I have discussed that issue at some length, and it is our view that—as the chairman has pointed out in discussing the behavior of institutions over the past decade, which, incidentally corresponded with the most rapid growth in Federal assistance to higher education in the history of the country—in that instance the expansion of Federal assistance did not appear to have the kind of corollary effect that you are concerned may accompany a further expansion.

With the pressure increasing for assistance to students from middle-income as well as low-income families, it is our view that some continuing expansion of Federal assistance is virtually inevitable. As between tuition tax credits, or expanded institutional assistance, or expanded grant aid, or loans, we believe loans are less likely to have the kind of effect that you are describing than any of the other alternatives. We believe there will be more political pressure from the very constituents of those politicians not to place a higher loan burden on the student and his family than there would be against transfering that burden to other institutional or grant assistance.

Mr. Kendis. Mr. Chairman, I think someone should speak up on the panel for the student financial aid administrators. Let me relate to you an experience I had recently in Boston at the NASFAA annual meeting, where they had me address and lead a seminar discussion involving student debt, and I did what mischievously I like to do, assumed the devil's advocate role and said, "OK, you are all aid administrators, and we are giving too many loans, and you haven't the right to administer loans on the campus."

I almost got beaten out of the room. The issue on the floor became quickly whether or not if you have a student who is——

Mr. Ford. Mr. Buchanan and I were at that meeting, also, and we are familiar with the temper of the group.

Mr. Kendis. My point quite simply is that student financial aid administrators, if you want to be cynical about it, you can say that they are aware of where eventually alumni contributions come from, they are not going to immolate their own resource pool for their own institution, but if you are not going to be cynical, and if you are going to treat them for what they are, professionals, you will realize under the Kennedy-Bellmon bill they are the ones rationing the loans; they are the stopgap; they are the mechanism that prevents the kinds of fears that you have expressed of the overburdened students, of the overuse or abuse of the Federal loans, and I am not trying to say it is failsafe and perfect, but I would suggest to you that in the professionalism of the student financial aid administrators, who now under Kennedy-Bellmon have administrative allowance to deal concretely with the situation of the students and the estimation of what is a managerial loan limit, I believe in the person and the professional character of the student financial aid administrator, we have a lot more reliability than we would in, say, an unrelated banking institution awarding loans to students without the time or the program to counsel them in an environment that would be healthy.

Mr. Simon. Would the Chair yield for a question at that point?

One of my concerns here is that we are going to be in an era shortly where institutions are fighting for students. We are partially in that era now.

I am less concerned about those individuals you are talking about, but that the institutions, in order to get those students, are going to be making some loans that maybe they shouldn't be making. I would be interested if the representatives from Senator Kennedy and Senator Bellmon might respond to that.

Mr. URWITZ. When students are deciding which institution to go to, the loan part of the package is probably not the factor I would imagine which leads them to make a decision as long as the money is available, but loans don't tend to be an inducement to go to a place that you wouldn't otherwise go to in the same way that a scholarship might be.

I think it is fair to say that with respect to all of these programs, that is the BEOG's program, but most particularly the loan program, that some sort of thought should be given to quality control. I know in 1976 there was some discussion of trying to make the continued availability of the GSL's depend upon the default rate in various institutions, and something along those lines might be thought about again.

Ms. COX. I think that the evidence of the phenomena that you address is probably most dramatically available as we examine our experiences with some private proprietary schools. I don't mean to attack any group as a group, but we have certainly had some unhappy experiences in that area already. The Senator has suggested, as Jay alluded, that there must be some kind of quality control not only with respect to the quality of the loans, themselves, but with respect to the experience of the person who is getting the loan. Clearly there is a direct relationship between a student's disappointment with his educational experience and his unwillingness to repay the loan he took out to pay for that educational experience.

One of the things that the Senator has suggested, based on our experience with some private proprietary schools in our State, that you all may or may not wish to consider, is that he feels that we might strengthen our ability to control that situation if we gave the State agencies a stronger role in being able to intervene and interrupt lending activity at a point in time when it became apparent in their view that the institution was abusing the loan program. Certainly the school could appeal to the Federal Government; but Senator Bellmon thinks it is unfortunate, where it becomes locally apparent that there is a problem at a particular institution, that it takes so long to do anything about it. He thinks that some devolution of responsibility down to the State level that would allow for the interruption of that activity might be beneficial.

Mr. SIMON. Some modification along this line seems to me to be desirable in view of the experiences we have had.

Mr. FORD. Mr. Buchanan?

Mr. BUCHANAN. Thank you, Mr. Chairman. I would like to say I share the concern expressed by the chairman and my colleague. Perhaps one other concern I have is that I have a basic problem with too heavy a reliance on loan programs, and especially by those who are disadvantaged.

Not only am I concerned about proprietary institutions but also it is entirely possible for a person, at great personal sacrifice and great family sacrifice, acquiring a load of debt to obtain a degree from a very fine institution and a very good liberal education, that has virtually zero economic value.

If I am a first-generation college person, and if maybe I am a member of a minority, and everybody in my family and I have all worked very hard to put me through college, and I have gone through a good school and got a good liberal education, and I have a big burden of debt and can't find a job, I have a big problem. I am concerned about that problem, and I would be glad to hear your comments.

Ms. CONWAY. As the head of a liberal arts college, may I respond to that, Mr. Chairman? I think you are perfectly correct in your concern. I suppose there are two current trends in almost every private liberal arts college in the country, and in many public institutions in the area of career counseling. We are all aware that it is no longer satisfactory to give a student the experience of a liberal education that he or she cannot relate to their own basic motivations in work and hence career counselors now help students analyse their pattern of fulfillment in work. Career counselors now also work to help students arrive at some sense of focused talents that will be useful in employment.

If the subcommittee is interested, it is possible to provide you with a great deal of information about the improvement in levels of career counseling occurring nationally. For this reason I don't worry nearly so much about students with a liberal education assuming a burden of debt as I might have 10 or 15 years ago.

Second, of course, all of the studies we are able to carry out show that, despite the relatively lower earnings of liberal art students immediately after graduation, a decade after graduation, those with a liberal arts education continue to be higher earners and therefore returning more to society through taxes than those who have not had that kind of college experience. The earnings of liberal art graduates of course, vary very significantly in terms of whether or not they have gone on to other kinds of professional training.

As an institution for women we are finding evidence of a very interesting trend in industry and in the business world which is a greater and greater interest in hiring liberal arts graduates and training them, in-house. This occurs because they do have the ability to assimilate very diverse bodies of information and function happily working with widely different disciplines.

This is an important trend because I think it is an indication of a recognition on the part of employers that perhaps the level of investment in graduate professional training that has been occurring may not be necessary.

Mr. BUCHANAN. Thank you, and that is a very reassuring answer. It is a real concern on my part, and I do believe in a liberal education.

I wanted to ask Mr. Kendis, and also the distinguished Senator's representatives—what you say about financial aid administrators I believe to be true, and yet they are professional people and are not trying to get young people in trouble. I believe you can look with some degree of trust in Dallas Martin's group.

On the other hand, I don't understand under the Kennedy-Bellmon proposal that there would be that administrative allowance. If you have a need-base loan program with no ceiling written into it, how much choice would they have? If my need exceeds what in their professional judgment might be a safe level of debt for me, and the law says, in an almost entitlement way, that I may have a loan up to the level of my need, then would they have the choice to say, sorry, you can't go further because it would be too heavy a debt in your circumstances?

Mr. KENDIS. The discretionary fund would be the institutional scholarship fund always at the financial aid administrator's discretion in the packaging process.

Mr. BUCHANAN. Yes, but the Kennedy-Bellmon proposal already is going to give them everything they need, so if he or she won't give it to them out of their discretionary fund, then Kennedy-Bellmon will come along and say, "OK, friend, we will cover the rest of it." Would they have the choice to say no?

Mr. KENDIS. I hate to sit back and rely on econometric models which predict enrollment decisions based on net price that students face, but the evidence that we have is that it is the net price, the cost less the nonrefundable aid that seems to be the determining factor for a student's choice after you control other variables in the research. So loans are not nonrefundable aid and are recognized as a choice in the process.

I guess I am giving you a rationale to have confidence in the part of the decision on the part of the financial aid administrator. But, as was pointed out here, institutional viability in the 1980's is going to be battered by the declining enrollments and in that environment it is the financial aid administrator, cleverly able to package the aid to show the lowest comparative net price, that is going to attract the quality students.

Mr. BUCHANAN. If I may proceed for one more question, Mr. Chairman. All the proposals I have seen reduce cost to the Government to some extent by transferring cost from the Government to the student or the family. This would clearly be true of Kennedy-Bellmon, and would it not also be transferring the obligation from parent to student?

Mr. URWITZ. Let me make two points: First, with respect to the transfer from the Government to the student, I think one of the things that the bill is attempting to do is rather transfer the point at which the subsidy is given, namely, instead of keeping it at 3 percent, having a fairly invariant payback, that instead you try to make the payback more sensitive to the student's position after the student got out of school.

The graduated repayment mechanism, of course, will incur cost to the Government as will low-income contingencies and some of the forgiveness for public service, because when you have a graduated repayment, there are several years during which the Government is not recouping the money to turn around, so I think that is one way in which the way in which aid is focused is somewhat transferred rather than simply being revoked.

Ms. COX. It is true that Kennedy-Bellmon envisions somewhat higher interest costs than existing student loan programs and except for the kinds of offsetting cost because of variations on repayment schemes that Jay alluded to, that you could characterize that as a transfer of cost from the Government to the student or his family.

I think, however, that the question of the transfer of cost from the parent to the student is a different question altogether. I think it is arguable that the construct of Kennedy-Bellmon is less conducive to that transfer than the liberalization of the guaranteed student loan program that occurred last year. I don't think it is possible for us to identify the extent to which parents are participating or will participate in the repayment of Guaranteed Student Loans which are universally available to everybody with the in-school interests subsidy.

I think one of the most important things that Kennedy-Bellmon attempts to do is rationalize repayment based on the student's after-college income, rather than trying to forecast need and therefore the necessity for variations in interest or repayment based on family income before college. The dramatic illustration of that, of course, is the difference between the student from a poor family who goes to Harvard Law School and earns $50,000 a year, as compared to my child who may go to a college close to home or even a relatively high-cost institution and teach school.

My child, in that instance, would probably have less ability to repay than the child who was earning $50,000 a year after college. We think it is imperative for any kind of income contingency repayment scheme, or forgiveness scheme or adjustment of interest, to reflect the after-college ability of the student to repay, and it is in doing that that we incur the cost that more or less offsets the savings alluded to earlier resulting from raising interest.

Mr. FORD. Maybe I misunderstood. One of the cautions we have had from lenders is, when you talk about variable repayment systems, that you be very careful with anything that is income-contingent so that you don't get something that flows too much, because their prospective would not be attractive. They have good reasons that apply to the Federal Government as well as to the lender.

Do I understand when you talk about the variable payment system, it is something similar to what HUD is doing with the low payment at the beginning and high at the end, not a predetermined schedule that doesn't fluctuate from year to year on the basis of your income tax?

Ms. COX. That is correct.

Mr. FORD. You know in advance that your payments are going to be low now and higher at the end of the 10-year period, but you know, and so does the lender, what that repayment schedule is going to be before he starts?

Ms. COX. That is right.

Ms. CONWAY. Just one more comment, Mr. Chairman. I think one of the virtues of the Kennedy-Bellmon proposal is that it makes it possible for families to continue to assume the cost of their children's education, whereas the patchwork of loan programs that we have had and the kind of eligibility rules attached to them have actually made that impossible or very difficult for parents.

Private institutions that have created loan programs to enable families to stage the payment for their children's education over many more than 4 years have found an enormous response to it. So it is by no means clear to me that the proposal would transfer the cost of education to the student. It might make it much more possible for families to assume it.

Mr. BUCHANAN. Because of the family loan provisions in this and the administration bill, for that matter.

Mr. Chairman, may I presume 1 more minute? I am not sure I ever got a response from you about whether Dallas Martin & Co. are going to be able to hold down the loan content. Should the student desire a higher loan content on the basis of need does that student qualify for a loan?

Mr. URWITZ. No, the role is a counseling role, and we try to provide the strongest counseling role possible, but we did not set it up so that the financial aid officer would make at his own discretion determinations within the range that was set up.

I think it is perfectly clear that there will be a strong advisory role, and that that in conjunction with, as Mr. Kendis mentioned, the fact that there is a self-restraining aspect to students or to anybody assuming a loan, will help to keep them down, but we did not want it to be the case that a student, when choosing where to go to school, or whether he can go to school, or she can go to school, would not really know whether, although this is the ceiling that I am allowed, I might arrive and just come across somebody whose beliefs are that I shouldn't have anywhere near that amount and therefore still find this person in the situation of not being able to make up the difference between the scholarship and the parental contribution and the real cost.

So we wanted to give students that assurance that whatever the ceiling is, and if the ceiling below that differential is imposed, fine, but whatever the ceiling is, that the student would know that should it be absolutely necessary in his view that that amount of money be loaned, that he or she would be able to get it.

Mr. BUCHANAN. I do have other questions, a series of questions. But the one I will pursue just a little further is the forgiveness issue.

We have had proposals both for forgiveness and deferral on the basis of public service activity. We have it for teachers, various Government activities, Peace Corps, VISTA, for example.

If you agree there should be some kind of forgiveness aspect to the loan, should we expand the categories? Do you have any suggestions what to do by way of which categories?

Mr. FORD. Let me observe that we have now limited cancellation so that there really is not very much any more. Title I teachers, teachers of the handicapped but teaching generally has been phased out. The consideration we give for the types of public service is merely a delay in the beginning of the repayment schedule.

Mr. BUCHANAN. Deferral, not forgiveness?

Mr. FORD. Yes. So there is very little forgiveness in the loan program at the present time.

The total cost for the outstanding cancellation plus the current rate is probably someplace around $10 or $11 million.

Mr. BUCHANAN. Is it not 15 percent for every year spent as a title I teacher?

Mr. **Ford**. But there is very limited forgiveness. Each year we see the amount it costs to take care of forgiveness as a clear barometer of the fact that it is becoming a very small factor now.

Mr. **Buchanan**. I still would appreciate it if you would respond what kind of forgiveness or deferral, and to who?

Mr. **Simon**. If I could add to that question.

The Kennedy-Bellmon adds service in the Armed Forces. You say it qualifies for special pay. I frankly do not understand that.

Ms. **Cox**. That is in a combat zone.

Mr. **Kendis**. I believe the Kennedy-Bellmon bill has suggested some things I have written about in the past. If I can be indulged for just a moment.

Ideally, student loan mechanisms as we know them today could be used for any and all inducements for public service and manpower allocations.

One of the principles, however, in the most perfect of all worlds to make that kind of system work is that the governmental agency in whose interests that manpwoer allocation lies—if it is the military it is obviously the Department of Defense and if it is the health manpower interests we are talking about, health manpower division of the budget—assumes the budgetary responsibility for that forgiveness. If we are talking about that kind of an umbrella situation, I believe that is reflected in this loan program.

Certainly cancellation of loans and forgiveness of loans under certain public service or manpower allocation circumstances is feasible.

I say in the most perfect of all worlds, budgetary responsibility for that kind of movement would rest with that division of the Government that so desires, not education. In the past we have really had many of these provisions as a line item in the education budget, which inflates the cost to the Federal Government of the loan program per se.

Mr. **Ginsberg**. If I might expand on that: In the health professional student loan program there is a loan repayment provision that, as Mr. Kendis says, is appropriated yearly. Right now the problem is that it is essentially inoperable because there simply has not been the appropriations necessary. So for students it is unrealistic for them to accept the loan under the present system, believing that the loan repayment is their only option for paying it off, the forgiveness provision, that is.

That is another problem with the HEAL, which also has a loan repayment provision at the option of the Secretary of HEW. It is not there if the borrower needs it. So when you take out the loan, you do not necessarily know what the status is going to be when you graduate and have to repay the loan.

Mr. **Kendis**. Mr. Chairman, if I can give you a brief example, with all due respect to our dental students, it is the veterinary students that provide the most poignant case study for this.

You have veterinary students now faced with the binary choice when they leave school; either they groom poodles, which is what I call a small animal practice, and make a significant earning, or they are into a large animal practice. It is ironic the large animal practice pays around $12,000 to start; the small animal practice provides them a very large income.

So here we have a situation where, if the various Departments of Agriculture were interested in supporting large animal veterinary medicine, they would be able to participate in this kind of an umbrella situation and, more graphically, is really the provisions of the health loans where we actually have young people going into service in underserved areas, turning in applications for some loan forgiveness and having that application denied simply because there are no funds appropriated to cover that forgiveness. We do not have data on whether they turn around and go to a suburban practice or not. That is what we are waiting to see.

Mr. **Ford**. Both the administration proposal and Kennedy-Bellmon in slightly different ways have a form of discrimination with respect to loans for graduate students. The administration does it by selecting three categories of graduate students, health professions, law, and business. It says of these students that you will get the same kind of a loan that the family loan is, at the same higher rate of interest.

The Kennedy-Bellmon discrimination is broader in that it says of all graduate students, we will subsidize your interest while you are in undergraduate school and we will continue to subsidize interest in the undergradute loan while you are in graduate school, but the loans that you take out while you are in graduate school will begin to accrue interest like the health loans do now.

I was very much impressed when the dental students were here earlier this year with the examples they gave of what happens with that compounding of interest during school, and particularly for people who go on for extended periods of time for specialization, advanced training. What is the rationale for treating graduate students—and I notice this morning there was particular mention of graduate students who are in the humanities, it was in music.

When I asked the administration why they were, in effect, adopting a policy that said that a music student should be treated differently than a low-income, first-generation member of a minority who is expected to go back into his or her community and serve the people who needed them most—what is the reason for treating graduate students in this fashion?

Ms. **Cox**. You spotted, obviously, the fact that we do not discriminate as among graduate students——

Mr. **Ford**. You discriminate against them all.

Ms. **Cox**. There were considerations of cost, as there are in putting together any piece of legislation. There is a concern on Senator Bellmon's part that we not encourage the professional student syndrome.

There is a concern that you do not encourage people to stay in school for the sake of staying in school. There are different kinds of values that different people attach to education to which you alluded earlier, whether education has only a personal value or a societal value in general. Obviously we believe it has a major societal value.

As the president of Smith as pointed out, graduate school, to a greater degree than undergraduate education, has a direct effect on earnings and, therefore, personal value to the student.

Taking all of that into account and looking at the potential effect on debt coming out of school, accruing no interest on the undergraduate loan while the person is in graduate school, and accruing interest only on loans for graduate education, we made the decision that this was an acceptable means of controlling cost, and an acceptable point at which to draw the line on interest subsidies.

You of course can disagree with that. Many of the student groups have disagreed with it. Several of the universities that have strong graduate programs have disagreed with it. But we felt in the interest of keeping the cost of the bill within the bounds, and in which all of the other tradeoffs involved, it was a reasonable provision.

Mr. FORD. In short, your bottom line rationale is exactly the same as OMB's, that it saves money and probably politically it is salable to save money at the expense of graduate students. It does not leave us with very much in the way of justification to the educational community, however, in terms of not trying predetermination of what is valuable and what is not valuable education, in title II public support. When you couple that with the painful and ingenious devices that are constantly being considered to move the minorities into graduate study, where they are still not found in proper numbers, it seems we are working at cross purposes with all of the ambitions that are being expressed at the institutional level, the State level, and the Federal level.

We have an affirmative action program to bring minorities into graduate schools because of their underrepresentation and then say, on the other hand, because you are graduate students you ought to pay a little bit more for the cost of your money.

Mr. Martin, I believe it was, in his testimony yesterday pointed out that the administration's proposals in shifting the interest rates were already going to cost some students as much as $2,500 more than it now costs them to get the same amount of money to finish their education.

When you couple this with the discussion that has gone on before, how do we justify adding to the cost of money in a way that may not discourage but certainly do not reward someone for pursuing their education to the point where they may fulfill a much-needed role in society; how do you get these research people who are going through school with a strong conviction that they may well be the person who finds the cure for cancer, or the magic solution for some of the other social problems, work with all that motivation and say to them, "Well, we are going to help you in one way until you go this far."

I do understand the appeal of this, but I must say I am not really as frightened about the professional student as I was 10 years ago. I found that that phenomenon has changed very greatly. Part of it is because of cost and part of it also is that that professional students really were not being paid for with public money, most of the time when we found them.

There are families who despair of finding any practical place for young people in the family, to encourage them to try several different careers. Not many of the people walking around with multiple degrees come from low-income family backgrounds. At least I have not encountered them. I am speaking only from experience with this. But it is one aspect of this that I think will bother the educational community and certainly is going to bother the students, and I hope that you will work with us to maybe rationalize it back in the other direction.

I was much nicer to you today than I was yesterday with the administration, because I thought that their explanation for their motivation was wanting.

I would like to thank you. We have a vote. We have kept you very long.

I would like to announce this is the last hearing we have scheduled in Washington on reauthorization. There is one in Wisconsin tomorrow and another scheduled in Vermont.

The record of these hearings will stay open until the end of August and we would most heartily welcome not only the people here today but those with whom you are communicating to add to the record, particularly in light of the very ambitious proposals that we have had from the administration and the Kennedy-Bellmon bill in the last few days, and assure you that we will consider any and all solutions to our insoluble problems.

[Whereupon, at 12:17 p.m., the subcommittee adjourned.]

[Material submitted for inclusion in the record follows:]

copus Washington

STATEMENT OF THE
COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

before the

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON POSTSECONDARY EDUCATION

August 2, 1979

The Coalition of Independent College and University Students
1730 Rhode Island Avenue, N.W., Suite 500, Washington, D.C. 20036 Tel. (202) 659-1747

Mr. Chairman and Members of the Subcommittee:

My name is Steven L. Abrams, Acting National Director of the Coalition of Independent College and University Students, also known as COPUS. The Coalition is a Washington-based association representing students at chapters in over one-hundred independent colleges and universities across the nation. I am pleased today to offer a student perspective on S. 1600, the National Student Loan Reform Act, sponsored by Senators Kennedy and Bellmon.

Generally we are opposed to changes in federal student assistance policy that would inundate a student and his/her family with an ever more stifling loan burden. However, if the government desires to embark on such a new departure into a sea of credit, then we would support the proposal that made the fewest waves. Accordingly, relative to other proposals, the National Student Loan Reform Act would be acceptable to the Coaltion. Compared to the Tuition Advance Fund and National Student Loan Bank bills previously introduced by the two sponsors of S. 1600, this bill takes a more cautious and, we believe, more reasonable approach. Compared to the Administration's grand loan design, this bill, we feel, more realistically serves the interests of students.

This is not to say that the National Student Loan Reform bill does not have its shortcomings.

As we noted in previous testimony before this subcommittee on the Administration's loan bill, we are concerned about the precedent of parent-based student aid. Senator Kennedy himself has commented about the unfortunate "drain from the income of the parents of students" caused by current college prices. We would fervently hope that a program designed especially for the use of parents, complete with a mandated needs analysis, would neither drain them further nor intimidate them to the point where they might dump their share of the responsibility back into the laps of their sons or daughters.

An additional problem is that there apparently is no dollar ceiling or maximum figure for money lent to students and parents. Consequently, a student who does not qualify for a grant, especially at a high-cost independent institution, could borrow the entire amount of his/her tuition, fees, room and board--less his/her parents' contribution, most of which, given the unpredictability of needs analysis determinations, the parents likely would have to borrow. For example, at the college I am now attending, which happens to be the same one from which Senator Kennedy graduated in 1954, parents and their children could borrow the entire $8,140 per year tuition under the proposed bill. Multiplying this by a student's four years of attendance and then tacking on the interest would amount to quite an exorbitant figure. And despite the intemperateness of the amount, borrowing that total is all too tempting for hard-pressed families.

Realizing the gut necessity for families to take on such a loan burden to pay for an education now, universities--in the absence of restraints--will be tempted as well to raise tuitions or sizably increase enrollments to capture the additional dollars made available by an open-ended loan system. The only way to entitle loans to all students, and avoid shooting the tuition spiral to the moon, would be to impose mandatory price controls on educational institutions. But we cannot imagine that such controls would be palatable to many. So unless we want to encourage schools to raise tuitions and encourage the government to weigh students and parents down with an even greater percentage of these costs through a greater emphasis in federal policy on loans, we must maintain some functional uncertainty in our loan programs.

If a formal entitlement is unwise, an informal resolve to assure loans for most students who need them is a must. Nonetheless, if given an entitlement approach, at leastS.1600 goes about ensuring access and providing for students' needs in the proper manner.

It utilizes private lenders, which are local, abundant, and widely distributed geographically.

It develops existing state agencies and secondary markets as lenders and guarantors at local levels.

It retains a reasonable rate of interest for both student and parental loans.

It calls for no interest to accrue on undergraduate loans.

It qualifies all graduate students for loans with the same interest rate granted to undergraduates.

It starts repayment not until nine months after a student's graduation from college.

It includes income-contingent features and other innovative repayment options.

It permits limited forgiveness on loans for those students who enter community service.

It encourages better and more frequent college counseling, such as exit interviews, because all students' loans would now originate at the campus level.

In all, S. 1600 is considerably more favorable to the Coalition of Independent College and University Students than plans of a similar nature. Fundamentally, we regret a course stressing loans vis-a-vis grant aid being taken. But if the existing programs must be operated on, we urge the Subcommittee to wield a scalpel and not an ax.

APPENDIX

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

June 15, 1979

Honorable John Buchanan
U.S. House of Representatives
2159 Rayburn House Office Bldg.
Washington, D. C. 20515

Dear Mr. Buchanan:

This is in response to your recent request for an explanation of how a bank can increase its yield from student loans above the nominal yield of 7 percent plus the special allowance paid (and recalculated) quarterly.

By way of background, the statutory formula for the special allowance is that for any given quarter, it is equal to the average Treasury bill rate (TBR) in the preceding quarter, minus 3.5 percentage points. Therefore, the lender gets 7.0 percentage points in interest, plus TBR minus 3.5 percentage points. 7.0 + (TBR - 3.5) = TBR + 3.5. So, the shortest way of expressing the nominal yield on a student loan is that it is TBR + 3.5 points.

But no matter how TBR ranges, the yield cannot fall below 7 percent (because that is set by law) nor rise above 12 percent (because the special allowance is capped by current law at 5 percent). In the following discussion, I will assume that the TBR stays within a range (3.5 to 8.5) which invokes neither the floor nor the ceiling on student loan yields.

Assume that a bank makes a Guaranteed Student Loan of $1,000, and that TBR is currently 7.5. Its yield therefore is 11 percent or $110.

Sallie Mae will lend the bank up to 80 percent of the amount of the student loan, in this case, $800---which under current law must be put into another student loan. It is Sallie Mae's practice to charge interest equal to TBR + 1.0, so in this instance the bank borrowing the $800 must pay 8.5

percent to Sallie Mae, or $68. When the bank relends the $800 to a student, it receives the same 11 percent it did on the original loan, or $88.

What has happened is that with $1,000 of its own funds tied up, the bank is receiving $110 - $68 + $88 = $130---or 13 percent on its own funds. It can then repeat the process with the second loan, borrowing $640 from Sallie Mae at 8.5---or $54.40---and relending it at 11 percent---or $70.40. Now the bank is receiving $146---or 14.6 percent---on its original investment.

All the foregoing is actually reducible to a formula. So long as the bank's spread between the cost of its funds from Sallie Mae and the return it gets from relending those funds remains at 2.5 points, each succeeding warehousing will increase the yield on the original funds by an amount equal to 80 percent of the yield gain achieved by the preceding loan. This is shown in the following table.

	Amount	Percentage Yield On Bank's Funds	Gain
Loan 1	$1,000	11	-
Loan 2	800	13	2.0
Loan 3	640	14.6	1.6
Loan 4	512	15.88	1.28
Loan 5	410	16.904	1.024
Loan 6	328	17.7232	0.8192
	$3,690		

At this point, starting with $1,000 of its own funds, the bank has made six loans totalling $3,690, and the return on its investment has risen above 17.7 percent. A rational bank will carry the process to its logical conclusion: when the cost of administering the last loan exceeds the additional yield that loan generates.

Fluctuations in the TBR do not affect the yield raising possibilities from warehousing student loans with Sallie Mae. This is because Sallie Mae continuously refinances both its borrowings from the Treasury and its lendings to the warehousing banks. In short, both the cost of borrowings from Sallie Mae and the nominal yield paid by the Treasury (via the Office of Education) are indexed to the TBR to preserve the spread of 2.5 points.

So if the TBR were 8.5 instead of the 7.5 assumed in the table, making the nominal yield on Loan 1 equal to 12 percent instead of 11 percent, the true yield by the time Loan 6 was made would be 18.7 instead of 17.7 percent. Conversely, if the TBR fell to 6.5, the yield after Loan 6 would be 16.7 percent.

If TBR were to fall below 3.5, the lender could increase his yield more than in the example I used. When TBR is above 8.5, as it is now, the yield is depressed because of the ceiling on the special allowance; hence, the Congress is being urged to raise that ceiling.

What I have described to you in the foregoing is the gross rate of return on the original investment of $1,000. Obviously, there are costs associated with making the original loan and each succeeding loan. The net yield will vary from bank to bank, depending on its efficiency, on the average size of the loans it makes, on the level and cost of services furnished by the guaranty agency in its state, on the percent of its loan portfolio in repayment status, and so on. Whatever its net, the bank is sure to achieve the gross return---for that is guaranteed by the United States.

If you have any questions, I should be pleased to try to answer them.

Sincerely,

Alfred B. Fitt

Alfred B. Fitt
General Counsel

cc: Edward Fox
Student Loan Marketing Association

96th CONGRESS
1st Session

H. R. 750

To authorize loans for study at nonprofit institutions of higher education.

IN THE HOUSE OF REPRESENTATIVES

January 15, 1979

Mr. Smith of Iowa introduced the following bill; which was referred to the Committee on Education and Labor

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A BILL

To authorize loans for study at nonprofit institutions of higher education.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

FINDINGS AND DECLARATION OF POLICY

Sec. 2. The Congress hereby finds that the security and welfare of the United States requires that this and future generations of American youth be assured ample opportunity for the fullest development of their intellectual capacities, and that this opportunity will be jeopardized unless the financial barrier against youth of college ability obtaining a higher education can be overcome. It shall be the policy of the United States that no high school graduate who can secure admission to an institution of higher education shall be denied an opportunity to attend such institution as a result of inadequate financial resources and that it is incumbent upon the Nation to take positive and immediate action to meet these needs through a program providing loans for young people who need financial assistance for post high school education or training.

TITLE I—LOANS FOR COLLEGE STUDENTS

AGREEMENTS WITH INSTITUTIONS

SEC. 101. (a) The Commissioner is authorized to enter into an agreement with any institution of higher education which desires to participate in a program making financial loans to students. Such payments to institutions shall be made during the period beginning October 1, 1979, and ending September 30, 1985, but no such loan shall cover any period after September 30, 1986.

(b) An agreement between the Commissioner and an institution of higher education for making such loans shall—

(1) provide that funds paid to the institution under this Act will be used solely to make loans to students in such institution;

(2) provide that (A) no loan made to a recipient under this Act will cover more than two academic years, and (B) the amount of each such loan will be determined in the case of each recipient thereof with respect

to each academic year in which such recipient receives such a loan, except that no such recipient shall receive more than $2,000 under the provisions of this Act in any academic year of undergraduate enrollment; or $3,000 in any academic year of graduate enrollment;

(3) provide that the average loan per recipient for undergraduate students shall not exceed $1,500 and for graduate students shall not exceed $2,000 per academic year and shall be reduced proportionately for those students enrolled in such institution on less than a full-time basis;

(4) provide that payments under such loan will continue only during such periods as the recipient is in good standing at the institution;

(5) provide that each recipient of such a loan for the first and second academic years of undergraduate study must be selected solely on the basis of his being (A) capable of doing at least satisfactory academic work in the course of study which he will pursue in such institution, (B) in need of the amount of such loan in order to pursue a course of study in such institution and with out reasonable expectation of obtaining grant assistance from any other source sufficient to enable him to undertake such course of study, and (C) of good character,

with an earnest desire to obtain an education at an institution of higher education;

(6) provide that at the completion of the second academic year, if such recipient has maintained good standing during the first and second academic years and would be unable to pursue a course of study in such institution during the third and fourth academic years without such a loan, the institution in which such recipient enrolls for the third academic year is authorized to award an additional loan for the third and fourth academic years;

(7) include such provisions and be supported by such assurances as the Commissioner may determine to be necessary to assure that there will be no reduction of the amount of student financial assistance offered by the institution from its own resources as a result of participation in the program under this Act;

(8) include such other provisions as the Commissioner may determine to be necessary to protect the financial interest of the United States and promote the purposes of this Act and as are agreed to by the Commissioner and the institution;

(9) provide that the institution will secure the proper execution of such documents by a recipient of a loan as are necessary to assure repayment of such loans

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in accordance with the provisions of section 103 of this Act;

(10) provide that the liability to repay any such loan shall be cancelled upon the death of the borrower or if he becomes permanently and totally disabled; and

(11) provide that such a loan by an institution for any year shall be made in such installments as will reasonably protect against the disbursement of funds to cover expenses for any period after a recipient of a loan has failed to maintain a satisfactory standing at such institution.

PAYMENTS TO INSTITUTIONS

SEC. 102. (a) Sums appropriated under this Act for any fiscal year shall be available in accordance with agreements between the Commissioner and the institution of higher education for payment of contributions which together with the repayment of loans to the institutions shall be used for the establishment and maintenance of a Federal student loan fund at each institution. The Federal contribution to an institution shall be paid to it from time to time in such sums as the Commissioner shall determine will not result in unnecessary accumulation in the Federal student loan fund of such institution established pursuant to this Act. Payments allotted to such institutions for loans for graduate students

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shall not be used to provide loans for undergraduate students and payments made to provide loans for undergraduate students shall not be used to provide loans for graduate students.

(b) If the amount appropriated for any fiscal year is less than the aggregate of amounts authorized to be paid under subsection (a) for such year, the amount authorized to be paid under such subsection to each institution of higher education with which the Commissioner has an agreement under the Act shall be reduced in proportion to the student enrollments in each institution for such year so that the aggregate of such amounts does not exceed the amount appropriated for such year.

REPAYMENTS OF LOANS

SEC. 103. Each year beginning with the second taxable year that a scholar who received a loan under this Act is no longer a bona fide students of an accredited institution of higher education and working toward a degree, the recipient shall pay to the Commissioner a sum equal to 5 per centum of his personal net taxable income, as defined or determined by section 63 of the 1954 Internal Revenue Code, as amended, from sources other than pay for military service. Said sums to be paid each year until the total of the sums received by the student without interest is repaid. The Commissioner shall issue such regulations as are reasonably necessary to assure receipt of necessary documents and information to secure such payments and such required documents and assurances shall be secured prior to payment of an individual loan.

The recipient shall be given an alternative of repaying each year 10 per centum of the total of the sums received by the student and such payments shall begin with the second calendar year in which the student is no longer a bona fide student of an accredited institution of higher education for a period of six or more months and working toward a degree.

Any sums due and unpaid shall bear interest compounded annually at the annual rate the Commissioner determines to be 2 per centum more than the average interest rate paid on new issues of obligations of the United States for each calendar year such sums are due and owing.

APPROPRIATIONS

SEC. 104. In order to carry out the provisions of this Act, there are hereby authorized to be appropriated such sums as may be necessary to effectuate the purposes of this Act for fiscal year 1980 and each fiscal year thereafter through fiscal year 1985. Sums appropriated pursuant to the preceding sentence for fiscal years shall remain available for the award of financial assistance grants under this Act until the close of the fiscal year succeeding the fiscal year for which they were appropriated.

TITLE II—DEFINITIONS AND OTHER PROVISIONS APPLICABLE TO ENTIRE ACT

DEFINITIONS

SEC. 201. As used in this Act—

(a) The term "institution of higher education" means a public or other nonprofit educational institution in any State which—

(1) admits as regular students only individuals having a certificate of graduation from a high school, or the recognized equivalent of such a certificate;

(2) is legally authorized within such State to provide a program of education beyond high school;

(3) provides an educational program for which it awards a degree, or provides not less than a two-year program which is acceptable for full credit toward such a degree; and

(4) is accredited by a nationally recognized accrediting agency or association listed by the Commissioner pursuant to this paragraph or, if not so accredited, is an institution whose credits are accepted, on transfer, by not less than three institutions which are so accredited, for credit on the same basis as if transferred from an institution so accredited or is an institution which the Commissioner determines provides an educational program at least equal to the program provided by at least three

accredited institutions. For the purposes of this paragraph the Commissioner shall publish a list of nationally accrediting agencies or associations which he determines to be reliable authorities as to the quality of education or training offered.

(b) The term "high school" does not include any grade beyond grade 12.

(c) The term "nonprofit educational institution" means an educational institution owned and operated by one or more corporations or associations no part of the net earnings of which inures, or may lawfully inure, to the benefit of any private shareholder or individual.

(d) The term "public educational institution" does not include a school or institution of any agency of the United States.

(e) The term "State" includes, in addition to the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, and American Samoa.

(f) The term "Commissioner" means the United States Commissioner of Education.

FEDERAL ADMINISTRATION

SEC. 202. (a) The Commissioner may delegate any of his functions under this Act, except the making of regulations, or determining the accrediting of institutions to any officer or employee of the Office of Education.

(b) In administering the provisions of this Act for which he is responsible, the Commissioner is authorized to utilize the services and facilities of any agency of the Federal Government and of any other public or nonprofit agency or institution in accordance with appropriate agreements, and to pay for such services either in advance or by way of reimbursement, as may be agreed upon.

(c) The Commissioner, with the approval of the Secretary of Health, Education, and Welfare, may appoint one or more advisory committees to advise and consult with the Commissioner with respect to the administration of any of his functions under this Act. Members of any such committee, while attending conferences or meetings of the committee, shall be entitled to receive compensation at a rate to be fixed by the Secretary of Health, Education, and Welfare but not to exceed $100 per diem, and while away from their homes or regular places of business they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law (5 U.S.C. 73b–2) for persons in the Government service employed intermittently. The provisions of General Education Provisions Act shall apply to members of such committees.

METHOD OF PAYMENT TO INSTITUTIONS

SEC. 203. Payments under this Act to any individual or to any State or Federal agency, institution of higher education, or any other organization, may be made in installments, and in advance or by way of reimbursement, and with necessary adjustments on account of overpayments or underpayments.

ADMINISTRATIVE APPROPRIATIONS AUTHORIZED

SEC. 204. There are hereby authorized to be appropriated for the fiscal year ending September 30, 1980, and for each fiscal year thereafter through fiscal year 1985, such sums as may be necessary for the cost of administering the provisions of this Act.

SEC. 205. Nothing contained in this Act shall be construed as authorizing a department, agency, officer, or employee of the United States to exercise any direction, supervision, or control over, or impose any requirements or condition with respect to, the personnel, curriculum, methods of instruction, or administration of any educational institution.

TITLE III—NATIONAL STUDY

SEC. 301. (a) The Commissioner shall undertake a study to determine the extent to which the provisions of this Act can reasonably replace various other Federal grants or assistance programs.

(b) The Commissioner shall submit a report of his findings made pursuant to the study carried out under this section, together with such recommendations as he may deem appropriate, to the President and the Congress within two years after the date of the enactment of this section.

SEC. 302. This Act shall be cited as the "Federal Student Loan Act".

○

96th CONGRESS
1st Session

H. R. 3769

To amend the Higher Education Act of 1965 to raise the limits on insured loans for certain postsecondary students; to make such loans easier to obtain and repay; to assure greater certainty of loans as a reasonable portion of students' total need-based assistance or cost of attendance; to reduce the cost of insured loans to the Federal Government; to expand and integrate the role of State guarantee agencies as loan consolidators, loan servicers, and makers of secondary markets for student loan paper; to reduce arbitrary discrimination in the award of such loans; and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

April 26, 1979

Mr. Maguire (for himself, Mr. Bedell, Mr. Benjamin, Mr. Carr, Mr. Downey, Mr. Harris, Mr. Leland, Mr. Miller of California, Mr. Mitchell of Maryland, Mr. Nolan, Mr. Patten, Mrs. Spellman, Mr. Whitley, and Mr. Charles Wilson of Texas) introduced the following bill; which was referred to the Committee on Education and Labor

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A BILL

To amend the Higher Education Act of 1965 to raise the limits on insured loans for certain postsecondary students; to make such loans easier to obtain and repay; to assure greater certainty of loans as a reasonable portion of students' total need-based assistance or cost of attendance; to reduce the cost of insured loans to the Federal Government; to expand and integrate the role of State guarantee agencies as loan consolidators, loan servicers, and makers of secondary markets for student loan paper; to reduce arbitrary discrimination in the award of such loans; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Fair Access to Higher Education Act of 1979".

FINDINGS AND DECLARATION OF POLICY

SEC. 2. (a) The Congress finds that—

(1) access to postsecondary education is one of this Nation's central strengths in terms of increased productivity, individual satisfaction, and an enriched society;

(2) where educational loans are needed, financing through private capital remains the most effective and least costly way to assure qualified students' ability to attend the postsecondary institution of their choice;

(3) due to rising costs of attendance and increased numbers of students seeking loan assistance, neither current loan limits nor available private loan capital appear sufficient to meet such needs;

(4) many eligible lenders are reluctant to undertake or increase participation in insured loan programs due to perceived costs of origination and collection, inadequate access to secondary markets for loan invest-

ments, and continuing high default and delinquency rates;

(5) the resulting shortage of private loan funds has produced geographical unavailability and maldistributions due to loan rationing by lenders, denial of loans to students due to such factors as State of residence or lack of past relations with the lender, and other hardship-generating conditions inconsistent with the goals of the Higher Education Act of 1965;

(6) these conditions are likely to intensify as larger numbers of students seek subsidized loans;

(7) where insured loans are obtained by students, the burden of conventional repayment during early low-earning years after graduation, and the increasingly common burden of multiple payments where more than one loan was needed to finance an education, contribute to needless inequities as well as delinquencies and defaults; and

(8) there is substantial need for more flexible methods of repayment which ease student debt burdens before, as well as after, delinquency or default; for a coordinated approach which assures greater certainty of obtaining insured loans but recognizes that loans should be a residual part of a comprehensive student aid package; for a dependable method of consolidating

multiple loan obligations, at the borrower's election; and for mechanisms which assure eligible lenders ample access to secondary markets and efficient loan servicing, using State agencies with which lenders already deal.

(b) The Congress declares its purpose and policy—

(1) to increase the limits on insured loans for certain postsecondary students, the amount of private capital available for such loans, and the numbers of lenders participating in the guaranteed student loan program;

(2) to assure greater loan certainty for middle- and lower-income students, and authorize financial aid officers at postsecondary institutions to coordinate and initiate insured loans as a reasonable portion of attending students' total need-based assistance or attendance costs;

(3) to make available, at the election of either the lender or the student borrower, a repayment service administered by the Secretary of the Treasury and the Commissioner of Education, as well as repayment schedules based on the ability of the borrower to repay, measured by adjusted gross income;

(4) to strengthen the current program by expanding the incentives for, and ability of, State guarantee agencies or their designees to provide—

(A) alternative repayment services;

(B) localized secondary markets for student loan paper;

(C) centralized lender referral and loan servicing;

(D) efficient loan consolidation services; and

(E) reasonable amounts of direct loans of last resort;

(5) to continue to rely on private financing of guaranteed loans for postsecondary education; and

(6) to avoid major changes, disruptions, or other transition costs to the students, postsecondary institutions, lenders, and State agencies which have participated in good faith in the guaranteed loan program in the past.

INCREASE IN LOAN AMOUNTS

SEC. 3. Part B of title IV of the Higher Education Act of 1965 is amended—

(1) by striking out "$2,500" each place it appears in sections 425(a)(1), 428(b)(1)(A), 428A(a)(1)(A), and 428A(a)(2)(A), and inserting in lieu thereof "an amount equal to $2,000 in the first year of undergraduate edu-

cation, $2,500 in the second year of undergraduate education, and $3,500 in any succeeding year of undergraduate education"; and

(2) in sections 425(a)(2), 428(b)(1)(B), 428A(a)(1)(A), and 428A(a)(2)(A)—

(A) by striking out "$7,500" each place it appears and inserting in lieu thereof "$11,500"; and

(B) by striking out "$15,000" each place it appears and inserting in lieu thereof "$18,000".

FEDERAL REPAYMENT SERVICE; INCOME CONTINGENT REPAYMENT

SEC. 4. Part B of title IV of the Higher Education Act of 1965 is amended by adding after section 427 the following new sections:

"FEDERAL REPAYMENT SERVICE; REPAYMENT OF LOANS ON INCOME CONTINGENT BASIS

"SEC. 427A. (a) ELECTIONS FOR FEDERAL REPAYMENT SERVICE OR INCOME CONTINGENT REPAYMENT.—(1) An eligible lender (other than an eligible institution) may elect to have any loan made under this part and subject to repayment over a ten-year term collected by the Secretary of the Treasury (hereinafter in this section referred to as the "Secretary") and the Commissioner on a conventional basis, as provided in this section.

"(2) A borrower may elect the income contingent method of repayment of any loan made under this part. A loan for which such an election is made shall be collected by the Secretary and the Commissioner, as provided in this section, unless the lender holding such loan makes an election under paragraph (3).

"(3) An eligible lender (other than an eligible institution) holding a loan for which an election has been made under paragraph (2) may elect to collect such loan under the income contingent method of repayment, in lieu of collection by the Federal Government under paragraph (1) or (2).

"(4) Any election made under paragraph (1), (2), or (3) shall be made not later than the beginning of the repayment period, in a manner prescribed by the Commissioner to take advantage of existing procedures for loan conversion and to minimize additional paperwork.

"(5) The Commissioner shall promptly notify a borrower who has made an election under paragraph (2), or with respect to whom an election has been made by an eligible lender under paragraph (1) or (3), of such election and the resulting repayment status and obligations of the borrower under this section.

"(b) EFFECT OF ELECTIONS: AGREEMENTS BY COMMISSIONER; NONDISCRIMINATION.—(1) The Commissioner shall make an agreement with any eligible lender which holds a loan with respect to which an election has been made under subsection (a) (1) or (2), but not under subsection (a)(3), which provides that—

"(A) the lender will transmit to the Commissioner all information needed for the collection of such loan;

"(B) the Commissioner will make periodic payments with respect to such loan to the lender as provided in subsection (d), to the extent that amounts are appropriated from the fund established by subsection (f); and

"(C) the Commissioner will be bound by the terms of the agreement made between the lender and the borrower.

"(2) The Commissioner shall not make an agreement under paragraph (1) with a lender (other than a credit union) unless he is assured that such lender does not discriminate by pattern or practice against any particular class or category of students due to residence or by requiring that, as a condition to the receipt of a loan, the student or his family maintain a business relationship with the lender.

"(c) EFFECT OF ELECTIONS: DUTIES OF COMMISSIONER AND SECRETARY.—(1) With respect to each loan for which an agreement is made under subsection (b), the Commissioner shall—

"(A) transmit to the Secretary such information as may be required to enable the Secretary to carry out the duties established under paragraph (2);

"(B) make monthly payments with respect to such loan to the lender as provided in subsection (d), to the extent that amounts are appropriated from the fund established by subsection (f);

"(C) in the case of loans insured by the Commissioner under this part, take enforcement and collection measures with respect to instances of apparent nonpayment or underpayment referred by the Secretary under paragraph (2)(C); and

"(D) in the case of loans with respect to which the Commissioner has entered into guarantee agreements under section 428(c), refer instances of apparent nonpayment or underpayment to the appropriate State agency or nonprofit private organization for enforcement and collection.

"(2) The Secretary shall—

"(A) make available, with any information and directions relating to the filing of a Federal individual income tax return, a table containing the amounts stated in subsection (e)(1) for which borrowers may be liable, and such other schedule or information as may be necessary for a borrower to compute the amount of his annual payment under such subsection;

"(B) make available, with any information and directions relating to deduction and withholding of wages, a table containing the amounts an employer should deduct and withhold if the borrower elects withholding under subsection (e)(4)(A);

"(C) keep records of the amounts repaid with respect to each loan for which an agreement is made under this section, and transmit to each borrower an annual statement of his loan balance; and

"(D) refer each case of apparent nonpayment or underpayment to the Commissioner for enforcement and collection by the Commissioner or State agency or nonprofit private organization, as the case may be.

"(d) PAYMENTS BY COMMISSIONER TO LENDERS.—(1) The amount of any monthly payment made by the Commissioner under subsection (c)(1)(B) to a lender with respect to a loan for which an agreement is made under subsection (b)(1) shall be an amount equal to—

"(A) in any case in which an election is made under subsection (a)(1) but not under subsection (a)(2), the amount of the borrower's monthly repayment under subsection (e)(1); or

"(B) in any case in which an election is made under subsection (a)(2) but not under subsection (a)(3), the amount which would be paid by the borrower with respect to such loan for the month if the repayment rate under the loan were the mean repayment rate and the borrower were to repay such loan in equal monthly installments.

The Commissioner shall make periodic adjustments to payments under subparagraph (B) at intervals of at least one year to compensate for significant variations from such mean.

"(2) For purposes of this subsection the term 'mean repayment rate' means the mean annual amount of repayment of all loans with respect to which an election is in effect under subsection (a)(2), as determined by the Commissioner on the basis of all available information and on the basis of estimates where no such information is available.

"(e) Effect of Elections: Repayments by Borrower; Voluntary Withholding; Refunds for Excess Withholding.—(1) In any case in which an election is made under subsection (a)(1) but not under subsection (a)(2), the borrower shall pay to the Secretary for any taxable year an amount equal to the annual amount the borrower would be required to pay to the lender in the absence of this section.

"(2) In any case in which an election is made under subsection (a) (2) or (3), the student borrower shall pay to the Secretary or the lender, as appropriate, for any taxable year an amount equal to the lesser of—

"(A) the income contingent amount for the taxable year, or

"(B) the amount necessary to be paid during the taxable year to fully satisfy the borrower's obligation on the loan.

"(3) A student borrower who is not required to file a return of income for the taxable year under the Internal Revenue Code of 1954 shall not be required to pay any amount with respect to such a loan for such taxable year.

"(4) For purposes of this subsection, the term 'income contingent amount' means the sum of—

"(A) $35 for each $1,000, or portion thereof, originally borrowed;

"(B) 1 per centum of the excess (not to exceed $18,500) of the borrower's assessable income for the taxable year over $8,500, for each $1,000, or portion thereof, originally borrowed; and

"(C) 2 per centum of the excess of the borrower's assessable income for the taxable year over $18,500, for each $1,000, or portion thereof, originally borrowed.

"(5) The amount of any interest which is not paid by the borrower during a taxable year under the income contingent method of repayment shall be added to the principal amount of the loan at the end of such taxable year, with interest accruing thereafter on such amount at the same rate as on the principal.

"(6)(A) Each employer required by section 3402 of the Internal Revenue Code of 1954 to deduct and withhold amounts upon wages shall deduct and withhold amounts (determined on the basis of tables prescribed by the Secretary under subparagraph (D)) upon the wages of a borrower—

"(i) with respect to whom an election is in effect under subsection (a)(2) but not under subsection (a)(3), and

"(ii) who elects, in a manner prescribed by the Secretary, to have such amounts deducted and withheld.

"(B) Deducting and withholding of amounts shall begin when a borrower to whom subparagraph (A) applies first receives wages after making an election under such subparagraph. If an employer fails after such an election to deduct and withhold an amount, and thereafter such amount is paid by the borrower, such amount shall not be collected from such employer. Nothing in the preceding sentence shall relieve an employer from any applicable penalties for such failure to deduct and withhold.

"(C) The Secretary shall establish a method for a borrower to whom this paragraph applies to report his repayment status and the date on which his repayment period begins to employers for purposes of deducting and withholding of amounts where the borrower elects withholding under subparagraph (A). The initial report shall be made when a borrower makes an election under subparagraph (A), and an additional report shall be made not later than one month after the beginning of each new employment of the borrower.

"(D) The Secretary shall prescribe tables establishing amounts to be deducted and withheld under subparagraph (A). Such tables shall be designed so that the total of the amounts withheld from a borrower's wages during a taxable year will approximately equal the amount for which the borrower is liable for such taxable year under paragraph (1) or (2).

"(E) Each employer required to deduct and withhold amounts upon wages under subparagraph (A) shall make payment of such amounts to the Secretary or his delegate, at such time and in such manner as the Secretary prescribes to take advantage of existing procedures for deposit of amounts withheld and to minimize paperwork, and no such employer shall be liable to any other person for the amount of any such payment.

"(F) Amounts paid to the Secretary under subparagraph (E) shall be deposited in the fund established by subsection (g)(1).

"(G) Any employer who fails to deduct and withhold amounts upon wages when required by this paragraph shall be liable to the Secretary for a penalty equal to the amount of the penalty prescribed by—

"(i) subsection (a) of section 6653 of the Internal Revenue Code of 1954 in any case in which the employer negligently fails to deduct and withhold; and

"(ii) subsection (b) of such section in any case in which the employer willfully or fraudulently fails to deduct and withhold.

"(H) The Secretary shall issue such regulations as may be necessary to administer this paragraph.

"(7)(A) Each borrower with respect to whom an election is in effect under subsection (a)(1) or (a)(2) shall make an annual payment equal to the excess, if any, of—

"(i) the amount which such borrower is required to pay for the taxable year under paragraph (1) or (2), over "(ii) the amount deducted and withheld, if any, from such borrower's wages during the taxable year under paragraph (6).

"(B) Any payment due under subparagraph (A) shall be made, in a manner prescribed by the Secretary, not later than the date on which the borrower's Federal income tax return is required to be filed for the taxable year.

"(8)(A) The Secretary shall refund to each borrower to whom paragraph (6) applies, at such time and in such manner as the Secretary provides, an amount equal to the excess, if any, of—

"(i) the amount deducted and withheld, if any, from such borrower's wages during the taxable year under paragraph (4), over

"(ii) the amount for which such borrower is liable for the taxable year under paragraph (1) or (2).

"(B) The Secretary shall notify a borrower who has made the final payment on his loan that the borrower's obligations with respect to his loan have been fulfilled and that no further payments will be due.

"(f) DEFINITIONS.—For purposes of this section—

"(1) the term 'wages' means wages as defined by section 3401(a) of the Internal Revenue Code of 1954;

"(2) the term 'assessable income' means—

"(A) in the case of an unmarried individual, such individual's adjusted gross income;

"(B) in the case of a married individual who does not file a joint return under section 6013 of the Internal Revenue Code of 1954—

"(i) if such individual's adjusted gross income equals or exceeds the adjusted gross income of such individual's spouse, the adjusted gross income of such individual; and

"(ii) if such individual's adjusted gross income is less than the adjusted gross income of such individual's spouse, one-half the combined adjusted gross incomes of such individual and such individual's spouse; and

"(C) in the case of a married individual who files a joint return under section 6013 of the Internal Revenue Code of 1954, one-half the total adjusted gross income of the individual and his or her spouse;

"(3) the term 'adjusted gross income' means adjusted gross income as defined by section 62 of the Internal Revenue Code of 1954;

"(4) marital status shall be determined in the same manner as marital status is determined under section 143 of the Internal Revenue Code of 1954;

"(5) the term 'taxable year' means—

"(A) a taxable year as defined by section 441(b) of the Internal Revenue Code of 1954 which begins after the start of the repayment period; and

"(B) that part of a taxable year as defined by such section 441(b) which follows the start of the repayment period; and

"(6) the term 'repayment period' means the period referred to in section 427(a)(2)(B).

"(g) GUARANTEED STUDENT LOAN FUND.—(1) There is created on the books of the Treasury of the United States a trust fund to be known as the Guaranteed Student Loan Fund (hereinafter in this section referred to as the "fund") which shall be administered by the Commissioner.

"(2) The fund shall consist of amounts deposited in the fund from—

"(A) amounts deducted and withheld from wages, as provided in subsection (e)(6)(E);

"(B) payments made by student borrowers under subsection (e)(7)(A); and

"(C) appropriations made pursuant to subsection (h).

"(3) Moneys in the fund may be used only for the purpose of making the payments to eligible lenders provided for in agreements made under subsection (b)(1), and for the purpose of making refunds to borrowers under subsection (e)(8)(A). Moneys from the fund shall be available for such purposes only when appropriated therefor, and such appropriations shall be made without fiscal year limitation.

"(h) AUTHORIZATION.—There are authorized to be appropriated to the fund such amounts as may be necessary from time to time to make the payments required to be made by the Commissioner under subsection (c)(1)(B).

"(i) INCORPORATION BY REFERENCE.—All provisions of this part not inconsistent with this section shall apply to loans to which this section applies.

"ALTERNATIVE REPAYMENT SERVICE ADMINISTERED BY STATE AGENCIES

"SEC. 427B. (a) A lender or borrower who may make an election under paragraph (1), (2), or (3) of section 427A(a) with respect to a loan, may elect to have such loan collected by a State or private nonprofit institution or organization with which the Commissioner has an agreement under section 428(b), which—

"(1) has proven its ability to collect delinquent and defaulted loans, as determined by the Student Loan Marketing Association;

"(2) has the computer and other capacity to administer such a repayment service, as determined by such Association;

"(3) charges fees for such service which are less than or equal to the fees charged for the Federal repayment service under section 438(b)(5); and

"(4) does not make an agreement with an electing lender (other than a credit union) to provide such repayment service unless it is assured that the lender does not discriminate by pattern or practice against any particular class or category of students due to residence or by requiring that as a condition to the receipt of a loan, the student or his family maintain a business relationship with the lender.

"(b) Any election made under subsection (a) shall be made not later than the beginning of the repayment period, in a manner prescribed by the Commissioner to take advantage of existing procedures for loan conversion and to minimize additional paperwork.

"(c) Notwithstanding any other provision of law, for purposes of elections under this section, a State or private nonprofit institution or organization offering such repayment service shall be entitled, upon exhibiting an appropriate release from the student borrower, to prompt access to Federal tax information adequate to verify current domicile and employment (in the case of an election under this section and paragraph (1) of section 427A(a)), as well as to verify assessable income and current obligations under the income contingent method of repayment (in the case of elections under this section and paragraphs 2 and 3 of section 427A(a). Microfiche or other reasonable bulk facsimiles of a release form signed by a student borrower shall be deemed an appropriate release under this subsection.

"(d) All provisions of this part not inconsistent with this section shall apply to loans to which this section applies.".

STRENGTHENING AND COORDINATING THE ROLES OF STATE AGENCIES

Sec. 5. Part B of title IV of the Higher Education Act of 1965 is amended by adding after section 439A the following new section:

"STRENGTHENING AND COORDINATING THE ROLES OF STATE AGENCIES

"Sec. 439B. (a) Local Secondary Markets.—(1) The purpose of this subsection is to encourage States and nonprofit private institutions and organizations with which the Commissioner has agreements under section 428(b) to provide stable, accessible secondary market facilities to supplement and extend the primary operations of the Student Loan Marketing Association (hereinafter in this section referred to as the 'Association') under section 439. For purposes of this section, the term 'State marketing association' means a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b), or a private corporation sponsored by such a State, institution, or organization, which makes or purchases loans insured under this part.

"(2) A State marketing association which undertakes to provide secondary marketing and warehousing facilities which meet the requirements of paragraph (4) shall—

"(A) subject to reasonable terms and conditions prescribed by the Association, and upon submission of an estimate to the Association of the funds required to provide such services for the coming fiscal year, receive an advance of such funds in whole or in part from the Association. Any such advance shall create rights in the Association in future loans purchased, replaced or made by the State marketing association, to the extent of such advance;

"(B) subject to reasonable terms and conditions prescribed by the Association, be entitled, on a priority basis, to loan-purchase agreements from the Association and to warehousing advances not to exceed 100 per centum of the face amount of an insured loan (the proceeds from any such purchase or advance to be invested in additional insured student loans);

"(C) subject to reasonable procedures prescribed by the Commissioner not later than the effective date of the Fair Access to Higher Education Act of 1979, receive payments for administrative costs, in lieu of any payments made under paragraphs (1) and (2) of section 428(f) and without regard to any restrictions applicable to payments made under such paragraphs, in total amount for any fiscal year equal to 1 per centum of the total principal amount of the loans upon which insurance was issued under this part during such fiscal year. If the sums appropriated for any fiscal year for payments under this paragraph are not sufficient to make such payments in full, the amounts for which State marketing associations are eligible shall be ratably reduced. If additional funds become available for payments for any fiscal year during which the preceding sentence has been applied, such reduced amounts shall be increased on the same basis as they were reduced.

"(3) With respect to loans in a period of repayment held by any State marketing association to which paragraph (2) applies, section 438(b)(2) (relating to special allowances) shall be applied by substituting '5.5 per centum' for '5 per centum' in subparagraph (C), and by substituting '3 per centum' for '3.5 per centum' in subparagraph (A)(ii).

"(4) Paragraphs (2) and (3) shall not apply unless the Commissioner determines that—

"(A) of the loans which the State marketing association purchases or makes advances on during such fiscal year—

"(i) 40 per centum of the value of such loans, in each of the first five fiscal years beginning after the effective date of the Fair Access to Higher Education Act of 1979, or

"(ii) 50 per centum of the value of such loans, in each fiscal year beginning after such first five fiscal years,

are made by banks with less than $25,000,000 of assets, savings and loan associations, credit unions, pension funds, and insurance companies;

"(B)(i) the State marketing association has made purchases or advances totaling $3,000,000 for such fiscal year; and

"(ii) the total amount of the purchases and advances made for such fiscal year by the State marketing association is at least 15 per centum greater, but not more than 30 per centum greater (except as may be required to meet the requirements of clause (i) of this subparagraph), than the total amount purchased and advanced during the preceding fiscal year;

"(C) the State marketing association takes reasonable steps to assure equal pro rata access to its secondary marketing and warehousing services to eligible lenders within the State; and

"(D) such loans and the lenders making such loans meet the requirements of section 439 with respect to loans which are purchased, or on which advances are made by the Association.

The Commissioner shall make the determinations required by this paragraph for a fiscal year not later than sixty days after the end of such fiscal year.

"(5) The Association or the Commissioner, as appropriate, may make annual projections based on quarterly or prior experience for purposes of implementing the payments required by paragraph (2)(C) and the determinations required by paragraphs (4)(A) and (4)(B) on a quarterly basis, and shall not be required to await a full year's experience before effecting those subparagraphs.

"(6) Nothing in this subsection shall be construed to prevent State marketing associations from financing secondary marketing operations, or financing the consolidation and direct lending operations treated in succeeding subsections, in whole or part by means other than the Association, or to preclude conventional access to the Association under section

439 by lenders or by State marketing associations which do not satisfy paragraph (4).

"(b) Loan Consolidation.—(1) State marketing associations are authorized to issue consolidated obligations at the student borrower's election, during or after conversion to repayment of the underlying loans. For purposes of this subsection, a consolidated obligation is a single obligation which replaces two or more loans issued to a student borrower under this part or part E, or issued before July 1, 1972, under title II of the National Defense Education Act of 1958, which—

"(A) bears interest at a combined rate yielding a total repayment of one-half per centum more than the interest the borrower would have paid if separate loans had been retained; and

"(B) carries such other reasonable terms and conditions as the Commissioner may prescribe.

The State marketing association or the student borrower may elect, at such time and in such manner as the Commissioner prescribes to take advantage of existing procedures for loan conversion and to minimize additional paperwork, to have a consolidated obligation repaid and collected pursuant to section 427A or 427B. Consolidated obligations shall not be subject to annual limits on loans made under this part.

"(2) Paragraphs (2)(A), (2)(B), and (6) of subsection (a) shall apply to consolidated obligations issued under this subsection.

"(c) CENTRALIZED LENDER REFERRAL AND LOAN SERVICING.—(1) State marketing associations are authorized to establish facilities for centralized lender referrals and for centralized servicing on a fee basis or loans insured under this part. The Congress declares its intent to encourage the establishment of such facilities.

"(2) The Commissioner shall make prepayments to any State marketing association which undertakes to—

"(A) develop in conjunction with eligible lenders and representatives of financial aid officers, and use a uniform statewide application form for loans insured under this part, which form indicates the grant, work-study, and other available assistance used to reduce the extent of the loan and is functionally compatible with forms used by other State marketing associations for similar purposes;

"(B) distribute such form to financial aid officers at all eligible institutions in its State;

"(C) provide that such officers may submit completed application forms directly to such State marketing association;

"(D) maintain a current list of eligible lenders, within or outside the State, which stand ready to make additional loans insured under this part, and communicate the existence of these applications in sequence to at least three such lenders, if necessary, within two business weeks of each form's receipt;

"(E) make limited direct loans of last resort, as specified in subsection (d); and

"(F) make available, on a fee basis, centralized billing and other servicing functions for loans insured under this part, whether or not such loans are in a period of repayment.

Such prepayments shall be in amounts equal to one-half of 1 per centum of the face amount of loans initiated or serviced through the above procedures during each fiscal year.

"(3) The Commissioner shall make annual projections based on current quarterly or prior experience for purposes of implementing the prepayments required by this subsection at quarterly intervals.

"(4) Nothing in this subsection shall be construed to prevent students from making independent application for insured loans; or to prevent State marketing associations from making primary, standby, or other advance agreements with eligible lenders for the making of loans initiated under this subsection; or to prevent participating lenders from designating local lenders as their agents, by mutual agreement, for purposes of credit interviews and other functions reasonably related to origination and disbursement.

"(5) Nothing in this subsection shall disqualify a State marketing association which undertakes to provide the centralized services specified in paragraph (2) from receiving the prepayments specified therein, or the offsets specified in subsection (e) of this section, where because of primary, standby, or other agreements or arrangements between that association and eligible lenders the actual making of direct loans under subparagraph (2)(E) of this subsection and subsection (d) below becomes unnecessary.

"(d) Limited Direct Loans of Last Resort.—Paragraphs (2)(A) and (2)(B) of subsection (a) of this section shall apply to any State marketing association which undertakes to make direct loans under paragraph (2)(E) of this subsection, where—

"(1) no insured loan can be made through the lender referral process specified in paragraph (2) of this subsection;

"(2) the toatal amount of such direct loans in any fiscal year does not exceed 20 per centum of the total amount of loans insured by such State marketing association in the immediately preceding fiscal year, or $2,000,000, whichever is less; and

"(3) the State marketing association assures the compiling of data sufficient to analyze the demographic and other relevant characteristics of student borrowers requiring such direct loans.

"(e) ADDITIONAL INCENTIVES FOR STATE AGENCY ACTIVITY.—(1) Paragraph (2) shall apply to any State marketing association which—

"(A) establishes secondary marketing and warehousing facilities under subsection (a);

"(B) provides for the issuance of consolidated obligations to student borrowers under subsection (b);

"(C) provides facilities for centralized lender referral and loan servicing under subsection (c); and

"(D) provides for a limited direct lending program under subsection (d).

"(2) A State marketing association which is described in paragraph (1) and which at any time holds funds owing to the Commissioner under section 428(c)(2)(D) or 428A(b)(5) because of payments made by borrowers on defaulted loans reinsured by the Commissioner, may, before paying such funds to the Commissioner, deduct from such payment an amount equal to all or part of the funds that association is eligible to receive (to the extent such funds are appropriated)—

"(A) for payment of reserve fund advances under section 422(c);

"(B) for payment of administrative costs under section 428(f), to the extent applicable; or

"(C) for payment of Federal reinsurance obligations under section 428(c).

"(f) ADMINISTRATIVE PROCEDURE.—(1) Rules, regulations, and procedures required to implement this section and sections 427A and 427B shall be issued by the Secretary or the Commissioner without regard to subsections (b) and (c) of section 553 of title 5, United States Code. No State marketing association which was in existence before July 1, 1976, shall be denied the benefits of this section before the issuance of such rules, regulations, and procedures.

"(2) No State marketing association shall be denied the benefits of this section at any time after the issuance of rules, regulations, and procedures under paragraph (1), without notice and an opportunity for a hearing on the record in accordance with section 554 of title 5, United States Code."

DISCOUNT FOR PREPAYMENT

SEC. 6. (a) Subparagraph (F) of section 427(a)(2) of such Act is amended by inserting ", and at a reasonable discount based on the administrative costs which are estimated to be saved because of such acceleration," after "penalty".

(b) Clause (i) of section 428(b)(1)(D) of such Act is amended by inserting ", and at a reasonable discount based on the administrative costs which are estimated to be saved because of such acceleration," after "penalty".

DEFERRAL AND ACCRUAL OF STUDENT INTEREST COSTS

SEC. 7. Section 428(a) of such Act is amended—

(1) in paragraph (1)(C) by striking out all that follows clause (ii) and inserting in lieu thereof the following:

"shall be entitled to have deferred (in the manner provided in paragraph (10)) a portion of the interest on such loan under circumstances described in paragraph (2), and the holder of the loan shall be entitled to payment of such portion during the period of such deferral as provided in this subsection.";

(2) in paragraph (2) by striking out "interest payment" each place it appears in subparagraphs (A) and (B) and inserting in lieu thereof "interest deferral";

(3) in paragraph (3)(A)—

(A) by striking out "paid on his behalf and for his account to the holder of the loan" and inserting in lieu thereof "deferred";

(B) by striking out "paid on his behalf for that period" and inserting in lieu thereof "deferred for that period";

(4) in paragraph (8)(A)—

(A) by striking out "paid on his behalf" in clause (i) and inserting in lieu thereof "deferred";

(B) by striking out "interest payment" in clause (ii) and inserting in lieu thereof "interest deferral";

(5) in paragraph (9) by striking out "payable" and inserting in lieu thereof "deferrable"; and

(6) by adding at the end thereof the following new paragraph:

"(10)(A) The amount of any interest deferred under this subsection shall be added as it accrues to the principal amount of the loan and shall be treated as a part of such principal amount, but shall not be treated as part of the amount originally borrowed for purposes of section 427A(e)(4).

"(B) In the case of the repayment to an eligible lender of a loan, the principal amount of which includes an amount attributable to interest deferred under this subsection and paid to the lender by the Commissioner, the lender shall pay to the Commissioner any such amount which has been paid by the Commissioner to the lender under this subsection.".

MULTIPLE DISBURSEMENTS OF LOANS; INCENTIVES FOR LENDERS

SEC. 8. (a) That portion of paragraph (8) of section 428(a) of such Act preceding clause (i) is amended to read as follows:

"(8) In the case of any eligible lender (other than an eligible institution or an agency or instrumentality of a State) which enters into a binding agreement with a student to make a loan, and which is subject to regular audit by any Federal or State financial authority—".

(b) Such paragraph (8) is further amended—

(1) by inserting "at intervals of not less than four months nor more than six months" after "paid" the first time it appears in subparagraph (B) (as redesignated by paragraph (4) of this subsection);

(2) by striking out "in accordance with regulations of the Commissioner,";

(3) by striking out subparagraph (B); and

(4) by redesignating clauses (i) and (ii) of subparagraph (A), as subparagraphs (A) and (B), respectively.

REDUCTION OF INEQUITIES RELATING TO DEFERRAL PERIODS

SEC. 9. (a) Subparagraph (C) of section 427(a)(2) of such Act is amended by striking out "full-time" in clause (i) and inserting in lieu thereof "half-time", and by inserting "as determined by the institution in a manner prescribed by the Commissioner" after "eligible institution".

(b) Subparagraph (M) of section 428(b)(1) of such Act is amended by striking out "full-time" in clause (i) and inserting in lieu thereof "half-time, as determined by the institution in a manner prescribed by the Commissioner".

QUICK CLAIM ON DEFAULT OF FEDERALLY INSURED LOANS

SEC. 10. Section 430(a) of such Act is amended by inserting "(1)" after "(a)" and by inserting at the end thereof the following new paragraph:

"(2) In any case in which the insured beneficiary certifies that it has complied with all Federal regulations relating to the establishment and verification of a default, the Commissioner shall, notwithstanding paragraph (1), immediately pay to the beneficiary the amount of the loss claimed by the beneficiary. After making such payment the Commissioner shall fully evaluate such paid defaults, on a quarterly or other periodic basis, to determine their validity. If any payment made under this paragraph is determined to be less than the amount of the loss, the Commissioner shall pay the difference between such payment and the amount of the loss, plus interest, to the beneficiary. If any payment is determined to be greater than the amount of the loss, the beneficiary shall pay the difference between such payment and the amount of the loss, plus interest, to the Commissioner.".

ADVERSE CREDIT EFFECTS OF VERIFIED DEFAULTS

SEC. 11. Within two weeks of verification of any default claim, the Commissioner, in the case of a loan insured by the

Commissioner under this part, or the State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b), in the case of a loan for which there is a guarantee agreement under section 428(c), shall report the default to a commercial credit bureau which is approved by the Student Loan Marketing Association.

SPECIAL ALLOWANCES; RATES FOR USE OF FEDERAL REPAYMENT SERVICE

SEC. 12. Section 438(b) of such Act is amended—

(1) in paragraph (1) by striking out "A" and inserting in lieu thereof "Except as may be otherwise provided in paragraph (5), a";

(2) in paragraph (2)(A), by striking out "paragraph (4)" and inserting in lieu thereof "paragraphs (4) and (5)";

(3) by redesignating paragraphs (5) and (6) as paragraphs (6) and (7), respectively; and

(4) by inserting after paragraph (4) the following new paragraph:

"(5) The special allowance computed according to paragraph (2)(A) shall be reduced by one-half per centum with respect to all eligible loans held by a lender for which an election to use the Federal repayment service administered by the Secretary of the Treasury and the Commissioner has been made under paragraph (1) or (2) of section 427A(a) within the first two fiscal years after the effective date of the Fair Access to Higher Education Act of 1979. The Commissioner may provide for the monthly payment of special allowances with respect to such loans in lieu of the quarterly payments prescribed by paragraph (1). With respect to elections made under paragraph (1) or (2) of section 427A(a) more than two fiscal years after the effective date of the Fair Access to Higher Education Act of 1979, the rate charged for use of the Federal repayment service shall be set by the Secretary, after consultation with the Commissioner, at the lowest level sufficient to cover the Secretary's costs of administering the service.".

CONFORMING AMENDMENTS

SEC. 13. (a) Section 427(a)(2) of such Act is amended—

(1) by striking out "and" at the end of subparagraph (H);

(2) by striking out the period at the end of subparagraph (I) and inserting in lieu thereof ", and"; and

(3) by adding at the end thereof the following new subparagraph:

"(J) provides that (i) the lender may elect (not later than the beginning of the repayment period) the Federal repayment service, or an equivalent repayment service offered by a State or nonprofit private institution or organization with which the Commissioner has an agreement under subsection 428(b), for securing repayment of insured loans on a conventional basis under section 427A(a)(1), (ii) the borrower may elect the income contingent repayment method under section 427A(a)(2), (iii) the lender may elect (not later than the beginning of the repayment period) to collect or have collected under section 427A(a)(3) a loan with respect to which such an election has been made, and (iv) repayment by the borrower of a loan for which such an election is made shall be made in accordance with section 427A or 427B.".

(b) Section 428(b)(1) of such Act is amended—

(1) by striking out "and" at the end of subparagraph (O);

(2) by striking out the period at the end of subparagraph (P) and inserting in lieu thereof "; and"; and

(3) by adding at the end thereof the following new subparagraph:

"(Q) provides that (i) the lender may elect (not later than the beginning of the repayment period) the Federal repayment service, or an equivalent repayment service offered by a State or nonprofit private institution or organization with which the Commissioner has an agreement under subsection 428(b), for securing repayment of insured loans on a conventional basis under section 427A(a)(1), (ii) the borrower may elect the income contingent repayment method under section 427A(a)(2), (iii) the lender may elect (not later than the beginning of the repayment period) to collect or have collected under section 427A(a)(3) a loan with respect to which such an election has been made, and (iv) repayment by the borrower of a loan for which such an election is made shall be made in accordance with section 427A or 427B.".

(c)(1) Section 427(c) of such Act is amended by striking out "The" and inserting in lieu thereof "Except in the case of a loan the repayment of which is made pursuant to section 427A, the".

(2) Section 428(b)(1)(L) of such Act is amended by inserting", except in the case of a loan the repayment of which is made pursuant to section 427A," after "provides that".

(d) Section 427(a)(2)(B) of such Act is amended—

(1) by inserting "and except in the case of a loan the repayment of which is made pursuant to section 427A" after "(except as provided in subsection (c))"; and

(2) in clause (ii) inserting "(except in the case of a loan the repayment of which is made pursuant to section 427A" after "fifteen years".

(e) Section 428(b)(1) of such Act is amended—

(1) in subparagraph (D)(ii), by inserting "and except in the case of a loan the repayment of which is made pursuant to section 427A," after "paragraph,"; and

(2) in subparagraph (E), by striking out "and" after "paragraph" and inserting in lieu thereof a comma, and by inserting ", and except in the case of a loan the repayment of which is made pursuant to section 427A" after "subparagraph (M) of this paragraph".

(f) Subparagraph (E) of section 435(g)(1) of such Act is amended by inserting "except for the purposes of sections 427A, 427B, and 439B," after "(E)".

(g) Section 439(d) of such Act is amended by adding at the end thereof the following new paragraph:

"(4) The Association is authorized to advance funds pursuant to section 439B(a)(2)(A) to State or nonprofit private institutions or organizations with which the Commissioner has agreements under section 428(b)."

1214

(h) Subsection (l) of section 6103 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new paragraph:

"(7) DISCLOSURE OF RETURN INFORMATION TO STATE STUDENT LOAN AGENCIES.—The Secretary may, upon written request, disclose returns and return information to any State or private nonprofit institution or organization with which he has an agreement under section 428(b) of the Higher Education Act of 1965, for use only for the purposes set forth in section 427B(c) of such Act.".

EFFECTIVE DATE

SEC. 14. This Act shall take effect 180 days after the date of its enactment.

Chartered by Act of Congress

STUDENT LOAN MARKETING ASSOCIATION
1055 Thomas Jefferson Street, N.W.
Washington, D.C. 20007
202/333-8000

EDWARD A. FOX
President

July 9, 1979

The Honorable John Buchanan
Subcommittee on Postsecondary Education
Committee on Education and Labor
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Buchanan:

This letter is in response to your request of June 5, 1979, to submit comments for the record to the Subcommittee on Postsecondary Education on the question of what rate of return a GSLP lender can expect to realize if that lender utilizes Sallie Mae's Warehousing Advance Program to the fullest extent possible and Sallie Mae's assessment of the Fair Access to Higher Education Act of 1979 proposed by Representative Andrew Maguire.

Warehousing Advance Program

Sallie Mae's Warehousing Advance Program enables holders of a portfolio of guaranteed student loans to pledge its loans as collateral for a warehousing advance (loan) from Sallie Mae. Under Sallie Mae's enabling legislation, the institution may borrow up to 80 percent of the principal balance of its portfolio and must reinvest the proceeds of the borrowing into additional student loans. As has been pointed out by many witnesses, a bank's $100,000 investment in student loans could eventually be built up to $500,000. Conversely, a bank with half a million dollars of student loans could immediately borrow $400,000. It is relatively simple to calculate the gross income associated with borrowing from Sallie Mae once the terms and conditions are known. Today an investor in student loans is charged one percent above the average Treasury Bill bond equivalent rate each quarter for borrowings from Sallie Mae. The yield to the holder of student loans is 3 1/2 percent above the bond equivalent Treasury Bill rate each quarter. Given the fact that the Treasury Bill is volatile, the income on student notes can, therefore, vary by law from 7 percent to 12 percent per annum. That means that the borrower utilizing Sallie Mae under the cited example could receive gross income in any given year ranging from 17 percent to 22 percent on its original investment of $100,000. Most respondents have ended their analysis at this point, assuming that the 17 percent to 22 percent represents yield to the investor. But such is not the case. The law requires the proceeds to be reinvested in additional student loans and there are substantial costs in the origination and collection of a newly acquired portfolio. It is very difficult to be precise about the specific nature of those costs as they are a function of the characteristics of the portfolio and no two portfolios are exactly the same. On an accompanying sheet, we have simulated an investment by a lending institution into a typical student loan assuming that the money had come from Sallie Mae. We have made the assumption that the borrower has taken a $2,000 loan and has two years remaining in school. We have assumed that the lender incurred a $40 origination fee and collected the loan over its life at Sallie Mae's current servicing fees. The student was assumed to repay the loan at the rate of $30 per month. For purposes of this cash flow analysis, the interest rate assumptions for the guaranteed student loan and the Treasury Bill are historic averages but reflect the fact that the Guaranteed Student Loan Program is 3 1/2 percent greater than the Treasury Bill at all times.

Using all of the above data, the cash flow of this student loan is presented on the attached chart (Exhibit A) and it was determined that under these assumptions the lender would earn $69 over ten years on a $2,000 note. This simulation is not unreasonable since the average loan which will be made this year will have many similar characteristics. The point of the exercise was to show that the additional gross income on the investment which was received by the lender goes first to pay interest costs and is then reduced further by origination costs and servicing costs, leaving a pre-tax profit that is significantly smaller than might be presumed if you looked only at income and not at expenses.

In order to discuss further the earnings potential to an institution borrowing from Sallie Mae, we tested the extremes of possibilities to get a range of possible net earnings to a lender. We found, for example, that yield could be enhanced substantially if the average indebtedness per borrower increased because monthly servicing costs are relatively constant on a per borrower basis whether a loan is at $2,000 or $4,000. Smaller loans have higher proportionate costs and will earn less or lose money for the lender. Certain states offer services to lenders which reduce their cost of participation in the Guaranteed Student Loan Program. On the negative side, the costs associated with the simulation are in current dollars. Assuming a 7 percent inflator, servicing costs would double over the next ten years, substantially increasing the costs to the lender for collecting each individual loan. Additionally, indirect institutional overhead cost has not been considered.

Based on the behavior of lenders who have borrowed from Sallie Mae, warehousing advances tend to be reinvested relatively quickly in additional student loans -- generally within three years. The portfolios of these borrowers tend to look like the national averages with a typical student holding 1.5 student loans and undertaking indebtedness of roughly $2,500. Under that simulation, a $2,500 total indebtedness would earn the lending institution a little over $100 over ten years or approximately 5/8 percent per annum on the average outstanding balance.

Returning to the original question and using our typical borrower as an example, if an institution borrowed from Sallie Mae at a gross spread of 2 1/2 percent between cost of funds and yield on a student loan portfolio, approximately 1 7/8 percent of that differential or average would go to direct expenses and 5/8 percent becomes increased income. If the institution can borrow four times as much as its own capital contribution ($400,000 vs. $100,000), the increased yield to the institution over and above its earnings on its own $100,000 would be four times 5/8 percent, or 2 1/2 percent additional by virtue of borrowing from Sallie Mae.

As stated before, this increased yield could be enhanced by efficiencies of operation, higher average indebtedness, or by tax relief or provision of service by state guarantee agencies. On the other hand, these additional earnings are probably overstated because there is no provision for inflation of labor intensive collection of the student loan nor is there any provision for indirect overhead.

The Fair Access to Higher Education Act

The Fair Access to Higher Education Act proposes to reduce inequities in the availability of student loans under the GSLP by supporting and strengthening the current delivery system rather than supplanting it. The proposed bill, in seeking to accomplish its stated objectives of continued private financing of student loans under the GSLP, looks to state agencies as intermediaries between the Federal government and private lenders. This approach is consistent with the Education Amendments of 1976, where Congress stated its intention that state guarantee agencies assume primary administrative responsibility for the GSLP. Developments since 1976 indicate that state guarantee agencies are being established and are developing the capacity to support in a variety of ways capital availability for student loans. This includes the development of state direct lending capacity, cooperative arrangements with private lending institutions to provide needed auxiliary loan funds, and state or local secondary markets as well as the continuing function of guaranteeing loans made by private lenders. Currently, Sallie Mae, to the extent its authorities permit, works to support state efforts in these areas. This concept of cooperative support in student lending utilizing the administrative strengths of the states and the financial resources of the national secondary market is continued and expanded in the Fair Access to Higher Education Act.

As with other proposed legislation in this area, the appropriateness or efficacy of the changes this bill suggests must be determined in light of the overall objectives of federal student loan delivery policy. Also, the cost considerations and administrative complexities the terms of this legislation creates must be assessed relative to its proposed benefits. In particular, the interrelationships between the state agencies and Sallie Mae in the accomplishment of such objectives as loan consolidation, loan availability and direct lending need to be carefully examined in light of the most currently available data on loan availability, loan burden and the related need for consolidation and loan administration and servicing considerations. While it is prudent public policy to improve existing programs before undertaking major new initiatives, it is important that significant modifications to existing programs be carefully scrutinized both in terms of need and impact. The issues of loan availability, manageable debt burden and the measurements of sound program management must be reviewed in a comprehensive fashion before major programmatic decisions are made. Lack of useful information inhibits sound decision making in this area. At present, I am reluctant to comment on major changes without a review of the actual status of loan availability and the expected developments in this area. Likewise, no comprehensive analysis of the dimensions and impact of debt burdens exists to guide policy makers in reviewing proposals dealing with loan consolidation and loan repayment. Finally, the interrelationship between loan availability and program costs, particularly in terms of defaults, needs to be further reviewed.

If, in the course of your deliberations during the reauthorization of the student loan programs, Sallie Mae can be of specific further assistance to you or the Subcommittee on this subject or other related issues, please feel free to call on us.

Very truly yours,

Edward A. Fox

Edward A. Fox
President

Attachment

Exhibit A

STUDENT LOAN SIMULATION

Assumptions:
Average Loan Size $2,000
Monthly Loan Payment $ 30 (minimum)

Year	Status	Average Principal Balance	Interest @ 9.79%	Funds @ 7.29%	Origination Cost	Servicing Cost	Net Cash
Y 0	Origination	$ -	$ -	$ -	$ 40	$ -	$-40
Y 1	In School	2,000	196	146	-	12	38
Y 2	In School	2,000	196	146	-	12	38
Y 3	Grace	2,000	196	146	-	18	32
Y 4	Repayment	1,885	185	137	-	27	21
Y 5	Repayment	1,647	161	120	-	27	14
Y 6	Repayment	1,392	136	101	-	27	8
Y 7	Repayment	1,119	110	82	-	27	1
Y 8	Repayment	825	81	60	-	27	- 6
Y 9	Repayment	511	50	37	-	27	-14
Y10	Repayment	174	17	13	-	27	-23
			$1,328	$988	$ 40	$231	$ 69

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue N W
Washington D C
20036

FEDERAL LEGISLATIVE
COUNSEL
Charles O. Zuver
202 467-4255

Asnd ______________________

JUN 19 1979

Code ______________________
D/O ______________________

June 11, 1979

The Honorable John H. Buchanan
United States House of Representatives
Washington, D. C. 20515

Dear Mr. Buchanan:

This is in response to your request for information pertaining to the ability of lenders to warehouse student loans as discussed during the May 31 hearing before the House Postsecondary Education Subcommittee.

During the hearing, witnesses testifying on behalf of the American Bankers Association challenged a statement made on page 25 of testimony presented by Secretary Califano before the Subcommittee on March 20. The statement in question is as follows:

> "It is possible for a lender to 'leverage' a small amount of its own capital into a much larger and more profitable portfolio of student loans. Once it has a number of loans, the lender can then borrow 80% of the face value of those student loans from SALLIE MAE at interest rates which are 4% less than it charges for the loans. By repeated borrowing on the resulting new loans, the lender can multiply its original capital severalfold, giving it a very substantial rate of return on its own investment. For example, by doing this with $100,000 of its own capital, a lender can easily increase the total loans it makes to $500,000 and can earn as much as $24,000 per year on that original $100,000 investment."

[redacted] Following through on Secretary Califano's statement, it would be necessary to extrapolate the $100,000 in original investment down to 1 cent in order to arrive at a total of $499,985.65 (see attached). This is based on the warehousing technique authorized by law in the statute creating SALLIE MAE, whereby, a lender may borrow up to 80% of the face value of its student loans.

[redacted] (It should also be noted here that the average student loan is approximately $2,000. To effect the scenario created by the Secretary, a lender would have to warehouse loans every 5 days). The common practice, however, involves much larger amounts.

The [redacted] A lender is authorized to charge the T-Bill rate plus 3.5% on the money it lends (this includes interest plus the special allowance to a total maximum of 12%). SALLIE MAE, lends funds at T-Bill rate plus 1%. [redacted]

Finally, the Secretary suggests that through this warehousing technique, the lender can earn as much as $24,000 per year on an original investment of $100,000. In response to this, we offer the following scenario:

> Assume that a lender invests $100,000 in student loans at a cost of funds of 8%. If the average yield over the course of the year is at its maximum, the lender may charge 12%. Add on to the 8% cost of funds, the 1.5 to 2% servicing cost for a total cost to the lender of 9.5 to 10.0%. Ignoring the loan origination cost, and an additional .5% administrative cost (as reported by SALLIE MAE), the spread is 2.0% to 2.5% for an annual yield of $2,000 to $2,500.
>
> Next, we will assume, although it is a virtual impossibility, the lender does warehouse this original $100,000 for the additional $400,000 at SALLIE MAE's cost of funds set at T-Bill rates plus 1%. As we indicated in the preceding discussions, this produces a spread of approximately .5 to 1% again ignoring the origination cost and administrative cost. This .5 to 1% spread yields a return of $2,000 -4,000 annually.
>
> Therefore, by combining the original $100,000 capital investment with the $400,000 in warehouse funds the total annual return is $4,000 to $6,500 not $24,000 as suggested.

We do not suggest that student loans are not capable of yielding an acceptable return on the investment, but merely wish to set the record straight as to the maximum possible return. The American Bankers Association wholly supports the

Guaranteed Student Loan Program and strongly recommends its reauthorization in a manner that will continue to provide for lender praticipation. The immediate concern is that the program be strenghtened through increasing the special allowance.

We appreciate this opportunity to comment.

Sincerely,

Charles O Zuver

Charles O. Zuver
Federal Legislative
Counsel

Attachment

ATTACHMENT

$100,000 capital investment
warehouse at 80%

1 - $80,000
2 - $64,000
3 - $51,200
4 - $40,960
5 - $32,768
6 - $26,214.40 = Total of $295,142.40 in warehoused funds

7 - $20,971.52
8 - $16,777.22
9 - $13,421.77
10 - $10,737.42 = Total of $357,050.33 in warehoused funds

11 - $ 8,589.93
12 - $ 6,871.95
13 - $ 5,497.55
14 - $ 4,398.05
15 - $ 3,518.44
16 - $ 2,814.75
17 - $ 2,251.78
18 - $ 1,801.44
19 - $ 1,441.55
20 - $ 1,152.92
21 - $ 922.34
22 - $ 737.87
23 - $ 590.30
24 - $ 472.24
25 - $ 377.79
26 - $ 302.23
27 - $ 241.79
28 - $ 193.43
29 - $ 154.74
30 - $ 123.80
31 - $ 99.04
32 - $ 79.23
33 - $ 63.38
34 - $ 50.71
35 - $ 40.56 = Total of $399,819.74 in warehoused funds

36 - $ 32.45
37 - $ 25.96
38 - $ 20.77
39 - $ 16.62
40 - $ 13.29
41 - $ 10.63
42 - $ 8.50
43 - $ 6.81
44 - $ 5.44
45 - $ 4.35
46 - $ 3.48
47 - $ 2.78
48 - $ 2.23
49 - $ 1.78
50 - $ 1.42
51 - $ 1.14
52 - $ 0.91
53 - $ 0.73
54 - $ 0.58
55 - $ 0.47
56 - $ 0.37
57 - $ 0.30
58 - $ 0.24
59 - $ 0.19
60 - $ 0.15
61 - $ 0.12
62 - $ 0.09
63 - $ 0.08
64 - $ 0.06
65 - $ 0.05
66 - $ 0.04
67 - $ 0.03
68 - $ 0.02
69 - $ 0.02
70 - $ 0.01
71 - $ 0.01 = Total warehousing of funds to $399,985.65
$100,000.00 original capital
$499,985.65

Iowa College Aid Commission

201 JEWETT BUILDING
NINTH AND GRAND
DES MOINES, IOWA 50309
(515) 281-3501

August 23, 1979

The Honorable William D. Ford
Chairman
SubCommittee on Postsecondary Education
2368 Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Ford:

Our state agency administers a number of the education programs which are under consideration for reauthorization in 1981. These include the Guaranteed Student Loan Program, The State Student Incentive Grants, Comprehensive Planning Grants, Title VI Instructional Equipment Grants, and Title VII Grants for Reconstruction and Renovation of Academic Facilities.

Some of the changes in these programs which have been proposed by the Administration and others are of deep concern to many of us who have administrative responsibility at the state level. Although I know your SubCommittee has heard a great deal of testimony on these proposals during the past months, I hope it is not too late to submit my observations on the impact which some of these alterations would have on Iowa postsecondary education.

The enclosed memorandum has also been sent to Congressman Tom Tauke and other Iowa Congressional representatives.

Thank you for your continued advocacy of the state and federal partnership in the administration of postsecondary education programs. We all owe you a great debt of appreciation!

Sincerely,

Willis Ann Wolff

Willis Ann Wolff
Executive Director

WAW: va

Enclosure

August 22, 1979

To: The Hon. William D. Ford, Chr. Subcommittee on Postsecondary Educ.

From: Willis Ann Wolff, Executive Director, Iowa College Aid Commission

Re: Proposals for Reauthorization of the Higher Education Act of 1965

The Administration bill for reauthorization of the Higher Education Act of 1965 proposes a number of program changes which are of major concern to postsecondary students and institutions, as well as to state agencies which administer postsecondary education programs. This memorandum will address only those proposed changes which would have an impact on programs administered by the Iowa College Aid Commission.

Guaranteed Student Loan Program (state agency-based)
National Direct Student Loan Program (campus-based)

Administration Bill: The NDSL would be replaced with a need-based Basic Loan Program for both undergraduate and graduate students (except for graduate students in health professions, law and business) who are enrolled at least half-time. Loans will be limited to the student's need after deduction of family contribution, $700 in self-help, and any grants or scholarships the student may have. Annual loan limits are $3,750 for undergraduates and $5,000 for graduates. Cumulative limits are $12,500 for undergraduates and $25,000 for both undergraduate and graduate loans. Interest to student would be 7 percent or Treasury bill rate less 1 percent, whichever is less. Undergraduate interest will be subsidized while student is in school, but graduate interest will be deferred until the loan goes into repayment.

Loan capital and interest subsidies would be provided by the federal government. Administration and loan collections would be in the hands of a new federal agency replacing the Student Loan Marketing Association (Sallie Mae). Student eligibility for the Basic Loans would continue to be determined by the college financial aid officer, as under the NDSL, but need would be based on a single need analysis methodology mandated by the U.S. Office of Education and Congress.

The Guaranteed Student Loan Program would be restructured into a Supplementary Loan Program for students and parents who are not eligible for the Basic Loan or who wish to borrow to meet the family contribution and/or student self-help requirements. Loan capital would be furnished by private lending institutions, and state agencies would continue to administer and guarantee loans under this program. Interest would be charged to the borrower at the rate of the Treasury Bill plus 1 percent, payable throughout the in-school period. Lenders would receive a fixed special allowance of 2.5 percent above the borrower's interest rate. Loan limits would be $5,000 per year for undergraduate students and $10,000 per year for graduate students including any loans under the Basic Loan Program. Cumulative limits under the combined programs would be $20,000 for undergraduates and $40,000 for undergraduate plus graduate study. The new federal agency created to administer the Basic Loans would also provide a secondary market for Supplementary Loan paper and would assume the outstanding obligations held by Sallie Mae.

Reaction: The Administration proposals would reverse the commitments made by Congress in the Education Amendments of 1976 and the Middle Income Student Assistance Act of 1978. The 1976 Amendments, providing incentives for state agency administration of the loans, was a direct reaction by Congress to the dismal performance record and high default rates experienced under federal administration of the loan program. By comparison, the track record of the 26 state guarantee agencies in operation at that time was highly commendable. It was only a year ago that Congress provided relief for the middle and upper income families by extending interest subsidies to all student borrowers, regardless of income level.

These recommendations for radical surgery on the loan programs come at a time when Iowa and around 14 other states are just beginning to develop their new state guaranteed loan programs after many months of deliberation and planning. Most of these states would not have undertaken this considerable responsibility without the encouragement and support offered by the Congress in the Education Amendments of 1976. Although the Administration would leave the non-subsidized Supplemental Loans under state agency control, the entire nature of the state programs would be altered. The groundwork of lender support and confidence, which the newly-established state programs have worked so diligently to build, would be shattered by such an abrupt and radical change in policy. The lenders would be confronted with the added problem and expense of collecting interest at variable rates from in-school borrowers. The minimal "special interest allowance" of 2.5% offered by the proposal certainly would not compensate for the increased complexity of handling these loans.

It is a reasonable assumption that lender cooperation with the state guaranty agency would diminish significantly, perhaps irretrievably, under these circumstances. It also seems reasonable to expect that Congress will not turn its back on the commitments made to state guarantee agencies and to the middle-income voters without first giving those commitments a fair trial.

The Administration claims that loan accessibility will be increased and administrative costs lowered under the proposed dual program of Basic Loans and Supplementary Loans. The evidence of past experience does not support these claims. As a matter of record, accessibility has increased tremendously in the past year or two and most of that increase has been the result of expanded state agency involvement. Nationwide, loans guaranteed by state agencies increased by 47 percent during the first half of FY 1979, as compared to the volume during the same period in the preceding year. The Iowa Guaranteed Student Loan Program, which began operation on May 1, now has 570 participating lenders who made $6.6-million in state-guaranteed loans to 3,557 students during the first three months. Incidentally, it is reassuring to note that 87 percent of those student borrowers plan to attend Iowa colleges and universities next year.

As for economy in administration, it is difficult to believe that creation of a federal agency to administer the bulk of the student loans would be more cost-effective than state agency administration. Commercial lenders to date have provided approximately $15-billion in student loan capital. Will it be any bargain for the taxpayer to shift the major part of this burden to federal resources, as the Administration suggests?

The Student Loan Marketing Association has been administered prudently, with regard for good business practices. It is now providing substantial assistance to an increasing number of lenders throughout the country. In Iowa alone, Sallie Mae has generated new loan funds by purchasing student loan portfolios from 17 banks since last March. Four more transactions are now in progress.

There is no assurance that centralized federal administration of student loans would be any more efficient under a new agency and a new name than it was in the past. The remoteness of control, the sprawling scope of the enterprise, the rapid turnover of administrative personnel all are factors which militate against the success of centralization.

Recommendations: The current federal policy of encouraging the development and operation of state guaranteed loan agencies should be continued under the terms established by Congress in the Education Amendments of 1976 and the Middle Income Assistance Act of 1978. The recent elimination of the 5 percent cap on special interest allowances for lenders should be retained in order to make the return on these loans reasonably attractive to the commercial lenders. Sallie Mae should be continued with only such evolutionary changes as are necessary to assist it in carrying out its functions.

The State Higher Education Executive Officers Assn. (SHEEO) has recommended that the National Direct Student Student Loan Program be converted to a state-operated program to provide loan funds to qualified students who are unable to get guaranteed loans in the private market. The terms and interest rates for these loans would be identical with those extended by private lenders. Institutional financial aid officers would continue to be the point of contact in applying for these loans, but the state agency would have approval responsibility and would handle servicing and collections and would be the recipient of capital contributions from the federal government. The state agency also could take over existing NDSL loans from institutions that wished to be relieved of collection responsibilities.

The National Council on Higher Education Loan Programs (NCHELP), on the other hand, has taken the stand that the NDSL should be retained in its present campus-based form with certain modifications to strengthen institutional accountability and collection capabilities.

Single Need Analysis System
Single Application Form

Administration Proposal: A federally-designed and mandated form would be used to apply for all types of student aid--federal, state and institutional. The federal government would pay for the cost of processing this form. A single need analysis system would be developed by the U.S. Office of Education for use in awarding all federal need-based student aid. The new system would be subject to annual Congressional review.

Reaction: A single application form specified by the federal government would not achieve its stated purpose of creating less confusion and paperwork for parents and students. Supplementary forms would be demanded by the great variety of state and institutional programs which perceive a need for more information than the federal form would probably include. The prototype form developed by the USOE, for example, will not include much of the data which the ICAC staff feels is necessary for adequate review and validation of the student's need for assistance.

The two major need analysis organizations (College Scholarship Service and the American College Testing Program) have adopted a uniform methodology which is now in use by virtually all schools and state agencies for their need-based programs, including the federal campus-based programs. A federally-developed methodology, however, is used for the Basic Grant Program. Too often, expediency has been the motivating factor in arriving at Basic Grant family contribution schedules, whereas the uniform methodology attempts to reflect the actual economic ability of a family to contribute to college costs. The fluctuations in the Basic Grant system and the variations between it and the uniform methodology have been a source of confusion for applicants during the past several years.

Recommendation: The highly complex and technical business of financial need analysis should be entrusted to professionals in this area of endeavor. A single need analysis and application form for all types of student aid, while admittedly a desirable goal, should not be dictated to schools and state programs by the federal government. A reasonable fee for processing the need analysis form does not constitute an imposition on the student applicant, and the federal government should not assume this expense.

State Student Incentive Grants

Administration Proposal: Current matching of "old" state funds with federal funds should be phased out over a period of five years. The goal is that federal dollars must be matched with "new" state dollars for scholarships and grants. During the phase-in period, new state appropriations would be matched 100 percent and old funds would be matched by 80 percent. The second year, new funds would be matched 100 percent and old funds at 60 percent. By the fifth year, only newly appropriated state dollars would be matched. The theory is that this would persuade states to put up added funds continuously.

Reaction: The Administration plan would be counter-productive as an incentive for states to increase their funding and would probably result in eventual phase-out of the State Student Incentive Grant Program. Federal funding in this program has increased from $19-million in 1974-75 to $76,750,000 in 1979-80. During the same general period, state program funding has increased from $440.8-million in 1975-75 to $828.9-million in 1978-79. State figures are not yet available for 1979-80. The number of state programs in existence has grown from 31 to 57 (including territorial programs). The growth in the number of state programs has been primarily due to the SSIG Program. Seventeen of the 26 new programs established since 1974, however, are still doing no more than providing a dollar-for-dollar match for the federal allocations. In several cases, this match has been drawn from institutional funds already available instead of from new state appropriations.

The impressive increase in state-appropriated funds for scholarships and grants has been contributed overwhelmingly by those states which had well-established programs prior to the advent of the SSIG. These programs, including Iowa, did not need to expand their funding in order to qualify for the federal match but have done so because of the perceived needs of their students. In the case of Iowa, the current allocation of $802,000 from the SSIG Program is over-matched by 18 times by our present state investment of $14,500,000 in student aid funds.

The SSIG obviously has succeeded in motivating the creation of new state scholarship and grant programs, but if the majority of those new programs have not seen fit to expand their state contributions when a dollar-for-dollar match is available, why would they expand when the match would be applied only to additional state dollars appropriated each year? As for the older, well-established state programs, they would suffer no penalty until the end of the five-year phase-in, unless the federal appropriations were increased dramatically in the interim.

The requirement that all non-profit institutions must be eligible to benefit from SSIG funds should be eliminated. The federal government should not place itself in the position of dictating policy to those states which, for constitutional or policy reasons, wish to target their state student aid funds toward specified groups of students. This point becomes even more valid, of course, when 85 percent of the funds in question are state-appropriated--as in the case of the programs supplemented by the SSIG.

On the plus side, the Administration proposal to eliminate the distinction between initial awards and continuing awards is highly commendable. This distinction has been difficult from an administrative viewpoint and, more importantly, is a discriminating factor against programs aiding students enrolled in a short-term course of study. The Iowa Voc-Tech Grant Program is a good example.

Recommendation: The SSIG Program has been successful in its present form and should be expanded without introducing changes which would penalize states that have contributed most generously to student aid programs. The following modifications are recommended, however:

(1) The distinction between initial and continuing awards should be eliminated.

(2) The allowable maximum award should be increased to $2,000 (from the present $1,500).

(3) The requirement that all non-profit educational institutions must be eligible in programs using SSIG funds should be withdrawn.

Instructional Equipment Grants (Title VI-A)
Construction and Renovation of Academic Facilities (Title VII)

Administration Proposals: Repeal of Title VI-A, which has not been funded since 1978. Eliminate 3 percent ceiling on interest rate for facilities loans under Part C of Title VII. Funds under Part E would be extended to cover renovation of research facilities and other national priorities as determined by the Commissioner, in addition to the presently authorized purposes of reconstruction and renovation to conserve energy, to remove architectural bariers and to comply with safety and health regulations.Funds under Part E would be distributed by means of need-based state formula grants, discretionary project grants to institutions, and loans (direct, subsidized or guaranteed). Currently the legislation requires that any activities under Part E must be funded under Part A, which provides formula funded grants, or Part C, which provides for several loan programs.

Reaction: The Instructional Equipment Grants, for which no funds were provided in FY 1979 nor are included in the FY 1980 budget, was funded at a very low level for several prior years. The minimal funding made the program relatively ineffective and, unless adequate funding can be provided, termination of this program is probably justified. Far more crucial is federal support of Title VII. A recent demographic survey by the National Center for Education Statistics, in which the ICAC participated, indicates that there is a need of an estimated $561-million to modify campus facilities so that programs will be accessible to the mobility impaired student. The study, which included a sampling of 700 postsecondary institutions, found that private two and four-year institutions report only about 20 percent of the total assignable space is currently accessible. The impact of Section 504 measured by cost per assignable square foot of space is greater for private two-year and private four-year institutions than for private universities and all public institutions. Institutions have until June 1980 to complete all required architectural modifications. The House-approved appropriations bill for FY 1980 includes $25-million for campus reconstruction and renovation projects under Title VII. The Senate has not yet acted, and recent information is that this item may be deleted from the Senate version of the appropriations bill.

Recommendation: Title VII should be funded adequately to offer meaningful assistance to colleges and universities faced with the cost of compliance with federal requirements under OSHA, Section 504 of the Rehabilitation Act of 1973, and energy-saving modifications. Any funds made available for energy conservation projects under other Titles or authorities should be closely coordinated with Title VII projects. Priorities for distribution of funds under this Title should remain at the state level of determination, where institutional needs can be assessed more knowledgeably than at the federal level. Any state agencies assigned administration of these funds should be appropriately compensated for the cost of operations.

1202 Commissions (Title XII, Section 1202)

Administration Proposal: Eliminate the federal requirement that each state must designate or establish a broadly representative state postsecondary education commission to conduct comprehensive planning for all segments of postsecondary education. The Administration recommends only that the state be required to carry out the specified functions in Section 1203. No funding is recommended for FY 1980 or FY 1981.

Reaction: Despite the relatively small amount of federal funding provided ($12,174-million over five years), the 1202 Commissions have played a significant role in broadening the scope and increasing the extend of statewide planning. An Education Commission of the States survey indicates the following trends between 1972 and 1978:

- the legal authority of state higher/postsecondary education agencies has broadened significantly to encompass all postsecondary education in most states.
- the number of states with master plans for postsecondary education in effect or under development increased sharply.
- in states with master plans, all showed a significant broadening of the range of postsecondary education sectors considered in their planning.

- in the general data-gathering and analysis activities of state agencies there was also a significant broadening of the sectors included.

- there was a significant increase in the number of special studies related to student assistance and other concerns related to all of postsecondary education.

The scope of 1202 responsibilities and activities have varied greatly from state to state. In most states, federal funding has supported only a part of the cost of the planning activities. The most frequent activities in 1978-79 were:

- development or revision of comprehensive or master plans.

- development of computerized management information systems.

- role, scope, and mission studies.

- adult and continuing education and planning related to changing enrollment patterns.

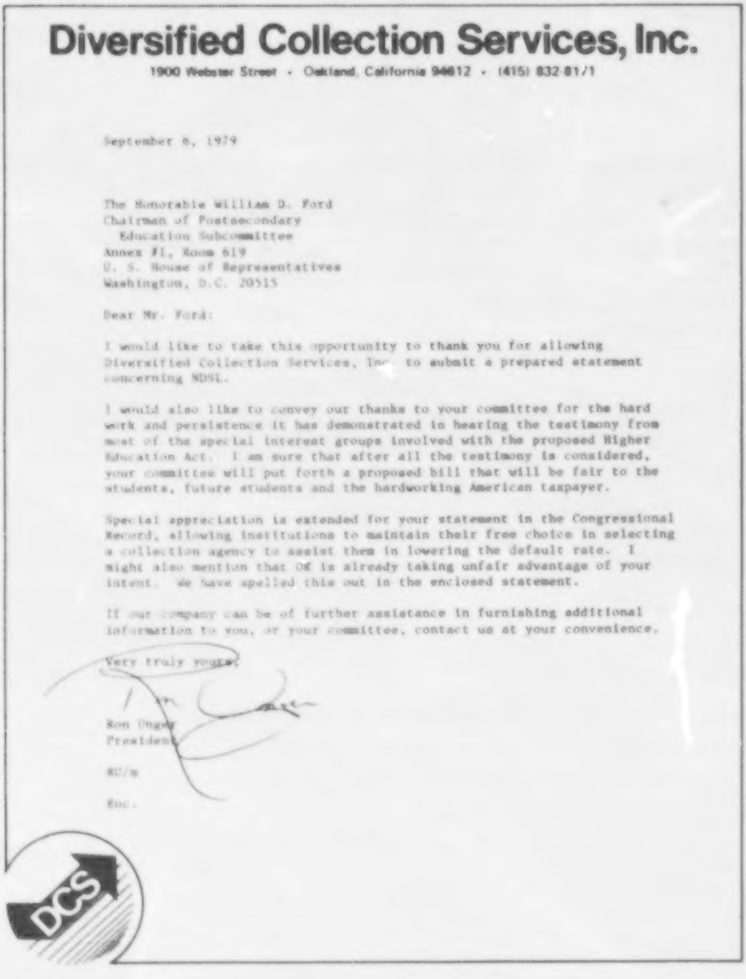
- educational, student assistance, and occupational information services; planning outreach, guidance and counseling services.

In Iowa, the ICAC as the designated 1202 Commission has served primarily as a facilitator to bring the private, public and proprietary sectors together in various planning projects funded by the Comprehensive Planning Grants. This voluntary cooperation in planning has gathered strength over the past four years with the development of regional clusters or consortia of institutions in the Lifelong Learning Project. During the past year, the Education Information Center Grant has also been incorporated into this statewide project to advance and encourage continuing education.

The ICAC, as a result of the 1202 designation, also has served as the state coordinator of the Higher Education General Information Survey. This information, supplemented by some added statistics, has been published by the ICAC in an annual Data Digest on Iowa Postsecondary Institutions. Some 700 copies of this publication are distributed to schools, libraries, legislators and education agencies.

In carrying out the 1202 functions, the ICAC has worked closely with and received guidance from the Iowa Coordinating Council for Post High School Education, a voluntary organization with representative membership at the policy-making level from all types of Iowa postsecondary institutions and education agencies.

Recommendation: The 1202 Commissions have been effective in broadening the scope of postsecondary planning and should be retained and strengthened. If the 1202 concept is eliminated, the planning functions specified in Section 1203 and other corollary section of the Higher Education Act should be assigned to state agencies which are fully representative of all types of postsecondary education.



Diversified Collection Services, Inc.

1900 Webster Street • Oakland, California 94612 • (415) 832-8171

September 6, 1979

The Honorable William D. Ford
Chairman of Postsecondary
  Education Subcommittee
Annex #1, Room 619
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Ford:

I would like to take this opportunity to thank you for allowing Diversified Collection Services, Inc. to submit a prepared statement concerning NDSL.

I would also like to convey our thanks to your committee for the hard work and persistence it has demonstrated in hearing the testimony from most of the special interest groups involved with the proposed Higher Education Act. I am sure that after all the testimony is considered, your committee will put forth a proposed bill that will be fair to the students, future students and the hardworking American taxpayer.

Special appreciation is extended for your statement in the Congressional Record, allowing institutions to maintain their free choice in selecting a collection agency to assist them in lowering the default rate. I might also mention that OE is already taking unfair advantage of your intent. We have spelled this out in the enclosed statement.

If our company can be of further assistance in furnishing additional information to you, or your committee, contact us at your convenience.

Very truly yours,

Ron Unger
President

RU/m

Enc.

STATEMENT OF
DIVERSIFIED COLLECTION SERVICES, INCORPORATED
A COMMERCIAL AGENCY
DEALING EXCLUSIVELY IN THE COLLECTION
OF EDUCATIONAL LOANS

CONCERNING
THE REENACTMENT
OF THE HIGHER EDUCATION ACT OF 1965

September 6, 1979

Diversified Collection Services, Incorporated
1900 Webster Street
Oakland, California 94612
(415) 832-8171

We would like to present our views on the student loan proposals now being considered in the reenactment of the Higher Education Act of 1965.

Diversified Collection Services, Inc. is a commercial agency dealing exclusively with educational student loans, and is headquartered in Oakland, California. We handle over 75% of the NDSL market in California, including all of the nineteen state colleges and universities and the nine University of California campuses. We also handle colleges and universities in other states as far east as Michigan.

We wish to point out a major flaw in both the Kennedy-Bellmon and Administration proposals: that they would remove fiscal responsibility and control of student loan programs from the educational institutions that now administer them, and surrender them to a federal bureaucracy.

This change has been presented as a means of lowering the high delinquency rates traditionally suffered by student loan programs. The Office of Education (OE) alleges that in the last eighteen months it has made good progress in reducing delinquency rates for the Guaranteed Student Loan program (GSL), which it administers, and proposes to do the same for the National Direct Student Loan program (NDSL), which is now being administered by the educational institutions themselves.

We intend to show that through selective reporting and changed reporting procedures, the OE has only created the appearance of improvement in GSL's delinquency rate. Meanwhile, the NDSL default rate has declined substantially, with further improvement a certainty. With a few modifications the rate can be brought down to an acceptable level.

Our facts are drawn from many sources. A major source is testimony before the House Subcommittee on Postsecondary Education (referred to here as the House Subcommittee) by Arthur Fritz, Director of the Commission on Governmental Affairs of the National Association of Student Financial Aid Administrators (May 30, 1979); Dallas Martin, Executive Director of the same organization (August 1, 1979); and Joseph Califano, former Secretary of HEW (March 20 and July 19, 1979). We also cite a report by the Comptroller General of the United States (FGMSD-79-59, February 23, 1979, referred to here as the *Comptroller General's Report*).

I. THE FACTS

I(A). The NDSL's "Delinquency Problem"

Secretary Califano's testimony before the House Subcommittee on Postsecondary Education has put the NDSL delinquency rate at 17% as of mid-1978. We must consider this delinquency rate in the light of the history of the NSDL program.

The NDSL program, originally named the National Defense Education Act (NDEA), was created in 1958. For many years, government and institutional administrators focused on the Act's function of providing funds to needy students. Recovery of those funds was neglected. For example, promissory notes were written without safeguards that are standard practice in commercial loans, such as acceleration clauses, and penalty clauses for recovering cost of collection, attorney's fees, and court costs. This points up the fact that the OE gave no consideration to the recovery of delinquent debts when it assumed the responsibility of regulating the program.

The institutions had no experience in collecting delinquent loans, and received no guidance from the OE. In fact, the OE did not even encourage institutions to pursue collection activity. There was no significant pressure to reduce delinquency rates, and no administrative collection funding for institutions which wished to take the initiative in doing so. Therefore, most institutions followed the example of the OE and ignored the problem.

The OE's response to the high rate of default was long overdue. Nineteen years after this loan program was started, the OE finally published the *interim* final regulations specifying administrative procedures for the NDSL program. But these regulations, which were published in the Federal Register on August 24, 1978, were not mailed to institutions until November 1978.

The present default situation has been growing for twenty-one years. The OE policies which make it reasonable for institutions to correct this situation have been in effect for less than two years. To pronounce the institutions' efforts a failure now would be entirely unjustified.

I(B). What Have the Institutions Done?

Previous years' default rates are generally agreed to have been too high; but what is the situation *now*?

In response to recent regulatory changes, many institutions have set up their own collection offices for the first time. These offices are performing quite creditably. The OE's own figures show that institutions with in-house collection operations have a low average default rate.

The Comptroller General's Report states that institutions which use the services of commercial agencies have an even lower average default rate than those which only maintain their own collection offices.

Delinquency reductions since the OE began pushing for more effective loan collection have been substantial. For example, for the nineteen schools in the California State University system, the average default rate declined from 27.2% in academic year 1976-77, to 17.7% in 1977-78, to 14.0% in 1978-79. (*See* Attachment 3.)

I(C). What About the OE's Allegations That NDSL Has Not Improved?

The facts cited above stand in sharp contrast to the OE's assertions, which admit no improvement at all in the NDSL program. What accounts for these two different positions?

On January 29, 1979, HEW Secretary Joseph Califano wrote to the presidents of institutions participating in the NDSL program to express his concern over the program's continued high delinquency. He cited a number of steps that HEW had taken to help the institutions reduce their delinquency rates. In May and June 1978, HEW held about sixty workshops for institutional loan administrators to explain the OE's new regulations and procedures defining "due diligence" in collecting delinquent loans. About the same time, HEW sent representatives to conduct program reviews at many institutions and to make recommendations for improvement.

But, Secretary Califano concluded,

> it appears that as of June 30, 1978, the number of loans in default has increased from about 700,000 to more than 800,000.

In his testimony before the House Subcommittee on July 19, 1979, Secretary Califano repeated these figures and drew his conclusion:

> Between June 30, 1977, and June 30, 1978, the latest period for which figures are available, NDSL student defaults rose from 713,000 to more than 841,000, and the amount of money in default rose to more than $700 million.
>
> We cannot permit defaults in this program to continue increasing. It is, in part, for this reason that we are proposing our Basic Loan program with the Federal Government assuming administrative responsibility for the program. (page 16)

But what do the numbers mean? Statistics from June 30, 1978 can hardly be expected to reflect benefits from workshops held in May and June on regulations not published until the following August. The OE's new collections policy had had no time to work when the cited statistics were collected. Any assertion that the institutions are failing to reduce their delinquency rates must, therefore, stand without factual support.

I(D). Has the Guaranteed Student Loan Program, Using Government Collections, Substantially Improved Its Delinquency Rate?

In his testimony before the House Subcommittee on July 19, 1979, Secretary Califano contrasted the NDSL delinquency rate, which he claimed was getting worse, to the OE's Guaranteed Student Loan (GSL) rate, which he claimed was getting better:

> We have collected more defaulted loans during the first 9 months of this fiscal year than throughout the entire 2 previous years combined — $30.5 million, which amounts to 38% of the total $80 million collected on defaulted loans since the program began in 1965. Over this same period, the number of defaulters was reduced from nearly 400,000 to 237,000. (page 16)

And in his testimony of March 20, 1979, Secretary Califano stated:

> By the end of the first quarter of this year, we will have collected $10 million on defaulted Guaranteed Student Loans (GSL) — five times the amount collected during the same quarter in fiscal 1977.
>
> In the same GSL program, over 30,000 student defaulters began repayment or fulfilled their obligation during the second fiscal quarter — more than three times the total for the entire fiscal year 1977. (page 16)

While the increase in collections is commendable, it is less impressive than it appears at first blush. During the period in question, the OE increased its force of collection agents approximately from 100 to 1100. Thus, while the funds collected increased five times, the number of collecting agents increased eleven times, for a net *decrease* in return per agent of more than 50%.

The reduction in the number of defaulters also is something less than it seems. OE collectors were not encouraged to collect the delinquent balance on GSL accounts, but only to renegotiate a payment schedule. Such a schedule extends the loan recovery period beyond what it was before default, and often requires expensive follow-ups with a debtor who has already defaulted once. Yet renegotiated delinquencies are considered "current" in the OE's figures.

In addition, OE collectors have authority to settle many delinquent accounts for less than the balance due. They often settle for payments that do not even cover current interest on the loan. Obviously the government recovers only a fraction of the amount owed on such accounts. Yet they are also included in the statistics as debtors who "began repayment or fulfilled their obligation."

In contrast, institutions and commercial agencies score no points for abandoning the debts they are supposed to collect. Educational institutions are prohibited from doing so by government regulation. Performance statistics of commercial agencies handling NDSL accounts reflect only hard dollars recovered.

The OE has produced no statistics on its total recovery rate on delinquent accounts, that is, dollars recovered as a percentage of dollars worked. Best estimates are that the OE's recovery rate is less than 10%. In contrast, the Comptroller General's Report finds that commercial agencies realize a recovery rate of 26% to 33% on loans referred to them by the creditor as "uncollectable," although these loans have undergone intensive internal collection efforts before being assigned. Our own statistics on recovery percentage range from 20% to 50% depending on the type, locale, and internal administrative operation of each institution.

I(E). What Can the OE Do To Lower Default Rates?

The OE's own figures show that while the NDSL's overall default rate has been unacceptably high, individual institutions' rates vary widely.

The OE's best option to reduce the overall default rate is to concentrate on those institutions whose rates are high, which are less than a third of the institutions participating in the program. It should not force all institutions to give up loan administration to the OE. That course would be counterproductive, disrupting many loan administration programs which have taken years to refine, and are working well.

In its work with these institutions, the OE should concentrate on attacking the causes of default, not the symptoms. It is more important for the OE to help schools prevent defaults from occurring, than to try to improve their methods of pursuing delinquent debtors after defaults have occurred.

There is a clear pattern to the default rates: many two-year community colleges and for-profit vocational schools have high default rates, often exceeding 50%. Four-year colleges and universities tend to have much lower rates.

The OE can give community colleges assistance in improving their loan administration, and in setting up or streamlining their collection procedures.

The OE can perform the same services for commercial vocational schools; in addition, it could well establish stricter guidelines for qualifying such schools for NDSL assistance. While many vocational schools perform valuable services in an ethical way, some of them have made a practice of defrauding students rather than educating them. These schools' typically high default rates can best be lowered by denying them loan funds in the first place, rather than by forcing their victims to repay the money the government has been cheated out of.

II. THE ISSUES

II(A). Who Should Be Held Responsible For Collecting Institutions' Delinquent Loans?

Our society is founded on the general principle that each of us should assume the benefits and the risks of his actions. Time and again it has been found that when benefits are denied, initiative vanishes, and when risks are excused, responsibility vanishes.

This principle is demonstrated in the early history of the NDSL program. The current high default rate developed, in great part, because institutions were excused from the consequences of their loose loan practices.

Maintaining an institution's responsibility for defaults on its loans is the only practical way of ensuring that it manages the loans prudently.

Experience has shown that through careful counseling while loans are being made, and proper supervision at each periodic disbursement, an institution can reduce its delinquencies by 50%, and its uncollectable delinquencies by 75% or more. But this requires a genuine commitment from the institution to keeping defaults under control.

Loan administration, in particular, requires continual attention to each student from the time the loan is granted until the time repayment starts, and often longer. The OE's August 1978 guidelines for loan administration specify numerous measures the institution is expected to take. It must keep each student aware of his loan, and his obligation to repay it. It must stay in close enough touch with him to be sure that he does not drop out of sight between the time he graduates and the time he is supposed to begin repayment.

The Basic Loan programs now being considered would not only relieve institutions of responsibility for defaults, but they would also relieve them from having to put up 10% in matching funds, as NDSL requires. Having no direct stake at all in the money they lent out, some institutions would become less than vigilant in deciding how to award the loans. They could hardly be expected to perform a thorough pre-payment follow-up when administrative responsibility has been transferred completely to the OE. Can the OE take over this function, which involves keeping in touch with huge numbers of individual graduates over a period of months? Not likely — unless it proposes to build yet another bureaucracy for that purpose.

II(B). Is It Wise To Entrust Collections To a Federal Bureaucracy?

We can forecast the OE's effectiveness in dealing with collection problems from its past performance in GSL. The track record of OE collectors on the GSL program is actually quite poor. (*See* Attachment 2.) There are several reasons for this.

A government bureaucracy is inherently ill-suited to administer debt collection. Collection of delinquent receivables can be handled well only by an organization genuinely motivated to recover its money. Institutions are so motivated by a desire to recover their loan money for reuse. Commercial agencies are so motivated by a desire to make profits. Government bureaucracies are not necessarily motivated by money at all. Often their primary goal is to maintain or increase their funding, and to continue or expand their programs. They sometimes tend to produce good statistics at the expense of good results. Secretary Califano's claims, cited above, are examples of this.

Nor is a government agency an environment in which the individual collection agent can perform well. His work requires a substantial outlay of energy and ingenuity, and it is important that this outlay be promptly rewarded. But in government service, rewards for good performance are distant and uncertain. Because of this, low morale and lack of job satisfaction are common. This stands in sharp contrast to well-run commercial agencies, where agent compensation is directly tied to performance, and morale is generally high.

GSL collectors must work under regulations which handicap their activities severely.

They are forced to work from a card that contains only the name and address of a debtor, and the amount owed. They are actually forbidden access to files containing information that institution and commercial agency collectors consider basic, such as provisions of the promissory note, payment history, name of co-maker, if any, and names of friends and references for skip tracing purposes. These restrictions cannot help but cripple their efforts to work effectively.

In conclusion, forcing institutions to surrender their collection responsibilities to the OE would only produce conflict, inefficiency, and a further waste of the taxpayer's money. The ultimate responsibility would have to return to those individuals who first authorized it, in Congress.

II(C). Should Collection Litigation Be the Function Of a Federal Agency?

One reason for the GSL program's poor record is the difficulty the OE has in moving a delinquent debt to judgment. Cases are referred to the Justice Department for action, and filed in federal court. Due to its heavy case load, the Justice Department accepts only "good" cases, accompanied by a strong showing that if a judgment is obtained it will be collectable. The delay and cost of this procedure is much greater than that experienced by commercial collectors working through the state courts.

The Comptroller General's Report (page 8) states that commercial agencies can economically consider litigation for debts as small as $25; federal agencies normally must write off debts of up to $600 rather than start litigation. (This $600 cutoff, by the way, is greater than the average balance on delinquent NDSL accounts at most community colleges.)

Former OE Deputy Commissioner Leo Kornfeld and Executive Assistant Nat Coluzzi claimed that the OE intended to file 40,000 collection actions during the summer of 1979. If this has indeed been done, it is not likely to yield a proportionate increase in judgments. The Comptroller General's Report tells us why:

> U.S. attorneys, who pursue collection for the Department of Justice, reportedly do not have enough staff to pursue collection of all the debts agencies forward. Additionally, Justice believes that the court systems are already overburdened .... (page 13)

Thus, more referrals to Justice will prompt Justice to resist by imposing more stringent documentation requirements, or will produce even longer delays in the federal courts, but will not be likely to increase the number of judgments obtained.

It will increase the cost of collections, however. Every measure the OE takes to collect a debt is wholly subsidized by taxes, whether it results in a collection or not. The OE's proposed 40,000 new lawsuits will cost the taxpayer a minimum of $4 million, whether or not they yield one cent in increased collections.

Nor is a judgment obtained necessarily a judgment collected. Securing payment on a judgment requires coordination between legal and collection personnel, and such coordination is notably lacking between the OE and the Justice Department. The OE has not released statistics on the percentage of judgments that it collects, but if such statistics are ever obtained, they will be found to be astonishingly low.

II(D). Can Government Collections Be As Efficient As Commercial Agencies?

There has been some implied criticism of paying commercial agencies to do what the government can do itself. Consider the facts.

Commercial agencies are paid a proportion of the money they recover. They receive nothing until they give results. The cost of government collections is underwritten by the taxpayer, regardless of results.

Commercial agencies advance all litigation costs, an average of $50 per case. The average duration of litigation is ninety days. In contrast, government collectors must file all suits through the Justice Department, with the taxpayer bearing minimum costs of $100 per case. Litigation usually takes more than a year, during which time the assets sought sometimes disappear, and must always be reverified at substantial expense.

At no time has the productivity of OE collectors approached that of commercial agency collectors. According to the OE's house-originated *Collection News* (May 1979), the OE's Guaranteed Student Loan Collection Division averaged about $3,500 gross collections per agent. Commercial agencies on NDSL accounts average $15,000 per agent per month, working fewer accounts per agent. (*See* Attachment 4 & 2)

The Comptroller General's Report recommends that federal agencies adopt some of the collection practices of commercial agencies to streamline their operations, but admits that

> Because of legal and institutional constraints placed on Federal collectors and extensive documentation requirements, they cannot meet the cost effectiveness record of private industry. (page 9)

Our calculations, based on the OE's own statistics, show that when all costs are taken into account, the OE's collection activities are not cost effective. A commercial agency operated at the same level of efficiency would go bankrupt. (*See* Attachment 2.)

II(E). Should the OE Engage In Unfair Competition With the Private Sector?

Under the Higher Education Technical Amendments of 1979 (HR 4476), educational institutions have the option of referring delinquent NDSL accounts to the OE for collection. The OE offers them various inducements to do so, which commercial agencies cannot possibly match — inducements which, if offered by another private group, would have to be called kickbacks or unfair competition.

When an institution refers a defaulted loan to the OE, it is allowed an immediate 100% write-off of the delinquent balance, making it eligible to receive new funds to replace those lost. This puts strong pressure on an institution to assign loans to the OE in order to secure future appropriations, despite a triple net return on delinquencies that it could receive from private agencies. Thus, we find the OE using its privileged position to coerce institutions into conforming with its expansionary policies, regardless of these policies' uneconomic results. (*See* Attachment 1.)

The OE also collects delinquent loans for a 20% commission. Commercial agencies, prevented from running at a loss by the laws of economics, charge rates from 25% to 50%. The OE can undercut them, despite its substantially less efficient performance, because the taxpayer is subsidizing a losing operation.

Despite this, many institutions are choosing to refer their loans to commercial agencies rather than to the OE. This has to be taken as a testimony to the strong sense of fiscal responsibility some institutions have shown toward the NDSL program, and to the relative effectiveness of commercial agencies — their net yield per dollar referred is so superior that even the OE's uneconomic commissions cannot outweigh it.

III. RECOMMENDATIONS

III(A). General

We have shown that the NDSL program is fundamentally sound, and requires no major changes. Measures necessary to bring its default rate under control are now in motion, and have already begun to show results. What is needed now is not an expensive and disruptive change in the machinery for administering financial aid, but time for reforms already made to have effect.

Recommendation 1. We recommend that if all student aid is to be combined into a single program, as has been proposed, that that program be NDSL, and not some new program that promises to be as inefficient and expensive as GSL has been. NDSL has been shown to be the most economical and efficient vehicle for delivering financial aid to postsecondary students.

Recommendation 2. We recommend that the interest rate on the NDSL loans be increased from 3% to 6% (simple interest). The interest increase should be used to offset the additional administration costs brought on by inflation and program enhancements. At the same time, the rate will be low enough not to put an unfair burden on the student. After all, the loans are supposed to benefit students, not indenture them.

III(B). Loan Administration

Recommendation 3. We recommend that the OE establish a task force of advisors qualified to help participating institutions reduce their delinquency rates, and dispatch them to the minority of institutions where delinquencies are high. This task force should concentrate on correcting the causes of high delinquency, rather than treating the symptoms.

Recommendation 4. We recommend that all institutions be encouraged to do more thorough individual fiscal counseling, both when awarding and disbursing loans, and to exercise due diligence in administering loans, as directed by the regulations of August 24, 1978. This is probably the single most significant action the OE can take to reduce delinquency rates. Such encouragement can come through training programs for institutional loan administrators; offers of special assistance to institutions with delinquency problems; and as a last resort, sanctions against institutions which persistently fail to meet their obligations.

Recommendation 5. We recommend that institutions be given the *option* of requiring co-signers on all NDSL loans, rather than only on loans to students under age 18. Having co-signers will increase the recovery rate substantially, since co-signers (who are usually parents) tend to be more settled and easier to find. They also will more readily reveal the whereabouts of a defaulting student when they know they may be held accountable for his default.

III(C). Collection Procedures

Recommendation 6. We recommend that institutions retain responsibility for collecting delinquent NDSL accounts, and continue to contract with competitive commercial agencies to handle individuals who ignore their own collection efforts.

Recommendation 7. We recommend that delinquent loans, currently written off or assigned to the OE after two years, not be assigned to the OE until after five years. Uncollectable accounts should be held until they are four years old, and then be placed (or reassigned) with a second commercial agency for collection. Commercial agency experience has shown that debts which are uncollectable when first worked often become collectable later, when the debtor is more established and better able to pay. (*See* Attachment 6.)

Recommendation 8. We recommend that commercial agencies which specialize in educational loans be encouraged to offer training seminars to institutions, to share their expertise in this unique kind of collections. Institution loan administrators and collectors should be encouraged to attend such seminars.

Recommendation 9. We recommend that IRS skip tracing information be made available immediately to all institutions participating in the NDSL program.

IV. CONCLUSION

Both the administration and the Kennedy-Bellmon proposals for government administration of student loans represent a poor solution to a problem that is already being brought under control within the current framework of the NDSL program.

Institutions currently absorb a major portion of the administrative cost of the NDSL program. But if either of the proposed bills is accepted, the taxpayer will have to assume the whole cost. With federal inefficiencies, this cost could be double what it currently is for the institutions.

Contrary to some testimony before the House Subcommittee, the OE's GSL collection program is running poorly, while the delinquency rate for the NDSL program is dropping dramatically from last year's 17%. This suggests that the OE should surrender responsibility for collecting all student loans, rather than assume responsibility for all of them.

It has been found that default rates are highly dependent on good financial counseling before loans are awarded, and on good follow-up between the time of the award and the time a student is supposed to begin repayment. These loan administration functions can be performed effectively only at the local level. Educational institutions will have an incentive to perform them only if they retain fiscal responsibility for delinquent loans — responsibility which the proposed Basic Loan programs would abolish.

Far from reducing the delinquency problem, government administration and collection are bound to *increase* both the default rate and the funds lost through uncollectable loans.

If educational institutions are held responsible for their default rates, and given assistance when needed, the NDSL program will be a success. If the OE cannot make the program work in this manner, it certainly will not be capable of administering the program itself.

It has taken nineteen years for the OE to set up procedures for oversight and regulation of NDSL. Do we want to wait another nineteen years for it to straighten out a new program, for which it would be totally responsible?

Attachment No.1

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
BUREAU OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202

August 1979

MEMORANDUM TO INSTITUTIONS PARTICIPATING
IN THE NATIONAL DIRECT STUDENT LOAN PROGRAM

From : Leo L. Kornfeld
Deputy Commissioner for
Student Financial Assistance

Subject: New Collection Referral Authority -- Includes Return of Funds
Collected and Reduction in Default Rate

The Commissioner of Education is now authorized to attempt to collect any defaulted NDSL you refer for collection and to return to you the funds collected. This new authority just became law as a new section 467 of the Higher Education Act of 1965.

This new referral authority differs from the assignment provision contained in section 463(a)(5) of the Act and in section 144.8(d) of the NDSL regulations of August 24, 1978. Under that older authority, any loan assigned to the Commissioner became the property of the United States, and any funds collected had to be returned to the Treasury. By contrast, if you refer an NDSL to the Commissioner for collection under the new authority in section 467 of the Act, the Commissioner will return to you the funds collected, minus a collection charge of 20 percent.

Loans referred to the Commissioner under this new referral authority will be treated the same as loans assigned under the older authority in determining whether an institution is to receive new Federal Capital Contributions (FCC) under the funding critieria for NDSL. The funding criteria for the 1980-81 award year are currently being prepared as a notice of proposed rulemaking (NPRM) and include consideration of an institution's default rate.

Because this new authority was enacted so late, we are extending the date for loans to be assigned or referred. Any NDSL referred or assigned before September 15 (if mailed, must be postmarked by September 5, 1979) will not be counted as part of an institution's default rate in determining whether it is to receive FCC for 1980-81.

To be eligible for exclusion under this provision, an assigned or referred NDSL must have been in default for two years or more, despite due diligence on the part of the institution in attempting to collect the loan.

Due diligence was first defined in NDSL regulations on November 24, 1976. Those regulations became effective on December 24, 1976. An institution must show that its efforts to collect a defaulted note complied with that definition if the note fell into default after December 24, 1976. If the note fell into default before December 24, 1976 it is only necessary to show what action was taken.

(The definition of due diligence in the NDSL regulations of August 24, 1978, differs from the definition of November 24, 1976, in that it requires use of a collection agency, litigation, or both in some instances. The regulations of August 24, 1978, became effective September 28, 1978, which is less than one year ago. Therefore, no loan currently eligible for assignment or referral is affected by that change, because a loan must have been in default at least two years to be eligible for assignment or referral.)

To refer a note for collection, follow essentially the procedures previously announced for assignment with the following changes:

1. Do not send us the original promissory note. Send us a photocopy instead.
2. Cross out the heading "Assignment of Defaulted Notes(s)" and insert "Referral of Collection of Defaulted Note(s)" on the top of the OE 553 Form which will now be used for "referrals" as well as "assignments".
3. In the "Remarks" section of the OE 553 Form, type "These loans are referred for collection to the United States as provided under section 467 of the Higher Education Act of 1965. We understand that the Commissioner will return the amount collected minus a collection charge of 20 percent of the amount collected."
4. The "Certification by Institutional Representative" section of the OE 553 Form must also be completed as acknowledgment of the agreement.

Upon receipt of your transmittal, the Office of Education will promptly verify your listing of attachments and acknowledge their receipt. Upon receipt of this acknowledgment you should proceed to debit and credit your ledger entries to facilitate the reporting requirements, in Part II, Section A of the forthcoming NDSL Fiscal Operations Report and Section C - Cumulative Repayment Information.

Referred or assigned notes should be sent to:

Mrs. Florence V. Taylor
Chief, Services and Collections Section
Campus and State Grants Branch, DPO
Bureau of Student Financial Assistance
U.S. Office of Education
Washington, D.C. 20202

To date, nearly 200,000 loans have been assigned to the Commissioner under the older authority contained in section 463(a)(5) of the Act. Institutions that wish to convert that assignment to a referral will be given a chance to do so as soon as procedures can be worked out. All institutions that have made assignments will be furnished an agreement form listing the loans assigned and offering the institution an opportunity to change as many of those assignments as legally possible to referrals.

If an institution accepts that opportunity, funds collected after that conversion will be returned to the institution, minus a 20 percent collection charge. Further details will be announced later. If you have any questions, please contact Ms. Florence V. Taylor at (202) 245-9727 or your Regional Office of Education.

Distribution: President
Chief Business Officer
Financial Aid Administrator

PRODUCTION COMPARISON REPORT

Note: The OE production figures were taken from the "Collection News, Attachment No. 2".

	FEBRUARY	MARCH	APRIL	TOTAL
BOSTON	$ 82,000	$ 173,000	$ 250,000	$ 505,000
NEW YORK	122,000	68,000	87,000	277,000
PHILADELPHIA	150,700	197,200	187,400	535,300
ATLANTA	404,063	437,000	437,000*	1,278,063
CHICAGO	529,000	729,000	873,000	2,131,000
DALLAS	374,400	432,053	397,700	1,204,153
KANSAS CITY	141,438	183,840	220,800	546,078
DENVER*	275,242	279,241	279,241*	833,724
SAN FRANCISCO	986,227	1,222,000	1,340,000	3,548,227
SEATTLE	153,000	222,000	219,000	594,000
	$ 3,218,070	$ 3,943,334	$ 4,291,141	$11,452,545
OE'S MONTHLY PROJECTED OVERHEAD COST FOR GSL'S COLLECTION DIVISION	$ 4,177,562	$ 4,177,562	$ 4,177,562	$12,532,686
FEE CHARGED OF 33.33% FOR A COMMERCIAL AGENCY TO COLLECT SAME DOLLARS	$ 1,072,582	$ 1,314,313	$ 1,430,237	$ 3,817,132
ESTIMATED COST SAVINGS TO OE BY USING COMMERCIAL AGENCY, COLLECTING SAME DOLLARS	$ 3,104,980	$ 2,863,249	$ 2,747,325	$ 8,715,554
OE'S 1,100 COLLECTORS AVERAGE LESS THAN $3,500 GROSS COLLECTIONS PER AGENT PER MONTH VS. COMMERCIAL COLLECTORS WHICH AVERAGE $15,000 GROSS COLLECTIONS PER MONTH. CONSERVATIVE ESTIMATES ON COMMERCIAL AGENCIES WORKING SAME GSL ACCOUNTS WOULD BE --	$ 9,654,210	$11,830,002	$12,873,423	$34,357,635
LOSS TO OE IN NET DOLLAR COLLECTIONS BY NOT USING COMMERCIAL AGENCIES TO COLLECT GSL ACCOUNTS	$ 6,436,461	$ 7,887,062	$ 8,522,711	$22,846,234

* OE Collection figures not available - transferred March's production over to month of April

Attachment No. 2A

Estimated monthly expenses are founded on the basic costs incurred in collection operations by private enterprises, in addition to information we obtained while conducting training seminars for the collection staff at the Office of Education.

Note: GAO has established that government expenses to collect monies are twice that of commercial agencies. (Reference: Page 8, Comptroller General's Report, FGMSD-78-59)

One obvious cost difference is that OE's collectors average $3,500 per month gross collections, versus commercial collectors which average $15,000 per month gross collections, both working student loans.

GSL Collectors (1,100 collectors, including some supervisors and support staff with an average salary, including benefits, of $1,000 per month)	$1,100,000
GSL Staff (350 personnel with an average salary of $1,500 per month)	525,000
Postage Expense (based on number of accounts and system)	82,500
Telephone Expense (based on number of accounts and system)	605,000
Legal Expenses based on OE's published figures in attachment no. 2 (court costs, filing fees, process of service fees, etc.)	466,667
Justice Department Costs ($65.00 per case)	866,645
Office Space (300,000 sq. ft. @ $.40 per sq. ft., including janitorial and upkeep)	110,000
Repairs and Maintenance (normal upkeep)	24,750
Equipment Costs (furniture, typewriters, etc.)	55,000
Skip-tracing Directories (only one set per office)	2,000
Computer Service (including all related expenses, such as data entry, personnel, programs and changes, and all transaction charges, etc.)	190,000
Printing and Forms (dun notices and all internal forms and paper used)	100,000
Miscellaneous Office Expense ($5,000 per office)	50,000
TOTAL MONTHLY OPERATING EXPENSES	$4,177,562

INSTITUTIONAL DEFAULT RATE REPORT

Attachment No.3

Listed below is a sampling of schools, both two and four years, throughout the United States, reflecting the reduction in delinquency rates. We feel this significant reduction in default rates would prevail if all 3300 schools participating in the NDSL Program were polled, with perhaps the exception of some schools where the program has been abused.

	76-77	77-78	78-79
The 19 California State Colleges & Universities			
California State University-Bakersfield	32.1	21.6	18.0
California State University-Chico	10.9	7.9	7.0
California State University-Dominguez Hills	35.0	33.7	21.0
California State University-Fresno	15.4	12.1	11.81
California State University-Fullerton	23.8	16.2	15.5
California State University-Hayward	31.6	15.9	15.13
California State University-Humboldt	11.6	11.2	8.51
California State University-Long Beach	32.5	18.0	13.46
California State University-Los Angeles	24.2	21.8	19.2
California State University-Northridge	39.3	26.0	19.22
California State Polytechnic-Pomona	23.0	19.4	13.8
California State Polytechnic-San Luis Obispo	18.4	11.1	9.7
California State University-Sacramento	23.3	15.2	12.3
California State University-San Bernardino	32.2	13.8	10.0
California State University-San Diego	30.2	17.4	16.0
California State University-San Francisco	42.1	22.1	8.0
California State University-San Jose	26.8	15.6	12.7
California State University-Sonoma	31.7	25.9	19.7
California State University-Stanislaus	23.2	16.3	15.0
California State System Average	27.2	17.7	14.0
The University of California Campuses			
University of California-Los Angeles	33.5	25.7	20.2
University of California-Irvine	23.9	21.8	17.0
University of California-Davis	13.5	12.43	9.16
University of California-Santa Cruz	32.2	25.6	17.62
University of California-Berkeley	32.5	30.0	25.8
University of California-San Diego	29.2	25.7	16.3
Private and Community Colleges			
University of Santa Clara	11.4	12.2	7.4
University of the Pacific	9.0	8.58	8.50
University of Michigan	9.8	9.5	9.2
Eastern Washington State College	7.92	6.64	6.0
Loma Linda University	63.0	28.0	13.0
University of Nevada-Reno	13.0	9.64	9.0
City College of San Francisco	71.0	47.0	33.0
College of Marin & Indian Valley College	46.0	38.0	31.0
San Jose City College	67.0	41.7	24.1
McGeorge Law School	8.5	7.3	6.0
De Anza College	52.0	54.0	34.0

ATTACHMENT NO. 4

THE COLLECTION NEWS

BSFA MAY 1979 WASH., D.C.

REGIONAL OLYMPICS

The dramatic rise and fall of Olympics contenders during the past three months has led many observers to feel they need score cards to keep track of the players.

Seattle won February's gold medal with a .289 average, while Atlanta was a close second with .283. Chicago, with its .249 average, took the bronze. Kansas City was a strong fourth with .246.

But then the March winds must have blown through the regions, turning them topsy-turvy. When the dust settled, New York was number one with a .497 average, having whirled to the top from ninth place. This rise could be attributed in large part to the transfer of 13,000 accounts to Boston. However, the word from New York is that the extensive skip-tracing and telephone dunning effort propelled the region to the top. The entire staff of Collections, Research, Support, and Data Management cooperated in an all-out effort to secure good telephone numbers and establish contact with borrowers.

The shakeup among the heavyweight contenders was not just at the top. San Francisco took the silver medal with a .322 average after placing only sixth in February. Seattle, still a medal winner, nevertheless fell to third with a .320 average. Other shakeups (or, more accurately, downs) included Atlanta's fall from second to fourth and Chicago's drop from third to seventh.

The exciting turbulence of March calmed somewhat during April, since the same three regions won medals. New York was still lodged in first with a 4.79 average and Seattle, after a close March race, refused to give up and pulled away to take second with a substantial margin of .307 over San Francisco's .287.

There were still rumblings below the Olympic heights, however, as Kansas City bounced back to fourth again from its March slot of eighth. Boston rose from ninth to fifth; Atlanta slid again, this time from fourth to sixth.

Dallas provided the only stability during the past three months of whirlwind activity, finishing last each time.

One other change occurred during April that affected that month's standings and will effect all subsequent Olympics contests. Losses will no longer be counted in determining standings because of the increased number of accounts being transferred to Atlanta and San Francisco. It would be too complicated to compute losses for the Olympics; instead, progress in reducing losses will be tracked through the summer goals.

BSFA SELECTS NEW GSL DATA SYSTEMS CONTRACTOR

On April 17, Boeing Computer Service Company (BCS) of McLean, Virginia was awarded the contract for providing data processing and systems support to the Guaranteed Student Loan Program. The selection was made as the result of a competitive Request for Proposal announced a year ago. BCS will replace On-Line Systems, Inc. and will assume full technical responsibility for the contract work performed for the GSL Program. The present associate contractors, Systems Management Associates, Inc. (SMA) and Rehab Group, Inc. (Rehab) will continue to support the GSL Program. Sigma Data Services Corporation (SIGMA) is BCS' subcontractor responsible for maintaining the GSL Program application software. SIGMA will be responsible for accomplishing the conversion from On-Line to BCS. During the conversion phase, SIGMA will maintain the software and perform enhancements when required.

BSFA CONDUCTS REGIONAL COLLECTION TRAINING

Teams of BSFA and On-Line personnel held collections training sessions in all regions between April 23 and May 9. The purpose of the sessions was to review and update information presented to the regions during the past few months.

General topics covered during the sessions were --

1. Reports utilization - a review of all collections reports currently available from the computer system; included information such as how often a report comes out and how the regions can best use it. The training team also provided examples of each report.

2. Transfer of accounts to Regions IV and IX - procedures that will be used in transferring accounts, the schedule for transfers, and the number available for transfer.

3. Summer goals - the progress report was reviewed to determine those areas where regions might not be able to meet their goals. Appropriate corrective action was suggested.

4. Data Management - discussions involved data management area processing. BSFA central office ("war room") personnel should be able to resolve current processing problems for the regions.

5. Location Codes - a presentation on the relationship of the Codes to the Status Change Card was given to those regions that did not receive the earlier presentation. Strip posting was also reviewed with the Support Units of those same regions.

Different topics were covered in different regions, but summer goals and the transfer of accounts to Regions IV and IX were discussed in all regions. In addition, all regional personnel were given an open-book test based on information from the January 19, 1979 Collection Tools Booklet (green or black). Test results will be returned to the regions as soon as everyone has been tested. Those who did not make a passing score will be given time to review the subject matter. Leo Kornfeld will look at the test scores of the Assistant Regional Administrators, Claims and Collections Supervisors, and other key personnel so that the Bureau can assess the effectiveness of the January - February training.

HIGHLIGHTS OF REGIONAL ADMINISTRATORS' MEETING

- As long as each region achieves its summer goal for overall totals, the target figures for all other summer goal categories (except referral to collection agencies) can be adjusted. For instance, one region might not meet its target figure for write-offs, yet it might exceed the target figure for "paid in full," thus making up the loss in write-offs. If regions wish to adjust their targets, they should contact the Division of Quality Assurance by May 30.

- Results of the first set of comprehensive management reviews conducted in six regional offices were issued to RA meeting participants. Time frames for complying with recommended changes to improve performance had been met by all regions. The remaining reviews will conducted in Boston, Philadelphia, Seattle, and Chicago and will be completed by July.

All regions will have follow-up reviews, which should begin approximately 5 months after the initial reviews.

- During program reviews, regions must conduct the review as an audit to avoid overlooking some elements.

- The new schedule for review of guarantee agencies was announced. Reviews will begin the week of May 7, and each agency will be notified in advance when its review will be. Regional offices are in charge of reviews, with the central office acting only as support.

- The six regions with the best collection record for June and July will receive NDSLs in large quantities.

- The MITS objectives for the next 18 months were discussed. The central office will brief the Regional Administrators on their MITS progress before any regional visits by the Secretary or Under Secretary.

Justification standards for within-grade increases must be developed.

One person will assigned for each region to coordinate all of the region's training activities. This person will also act as a conduit for all information coming from the central office to ensure that regional employees are thoroughly informed about BSFA issues.

The next Regional Administrators meeting will be held in San Francisco on June 11-12.

PILOT COLLECTION PROJECTS NOW UNDERWAY

Between March 7 and March 31, the first groups of delinquent GSL accounts were transferred to the Atlanta and San Francisco regional offices (Regions IV and IX) as part of OE's pilot collection projects. Region IV has referred 2,486 accounts to its collection contractor; Region IX has referred 10,515. It's too early to evaluate any results, but we can report that Financial Collection Agencies, Region IV's contractor, has converted 10 accounts to repayment for a total of approximately $2,300. Payco American Corporation, Region IX's contractor, has converted 29 accounts to repayment, totalling $6,215. We will provide updates in the coming months on the agencies' progress.

KORNFELD AND COLUZZI DISCUSS LITIGATION WITH JUSTICE DEPARTMENT

Deputy Commissioner Leo Kornfeld and Executive Assistant Nat Coluzzi met in March with U.S. Department of Justice attorneys to discuss the referral of more OE litigation cases to that department for prosecution. The attorneys told Kornfeld and Coluzzi that, because the regional U.S. Attorneys' offices are understaffed, each regional office will need to prepare some of the necessary paperwork if the litigation caseload is to be expanded. Because different U.S. Attorneys offices may require different documentation, each regional office will be responsible for working closely with its U.S. Attorneys' office so that the region will know what is needed before a case can be referred for litigation. This cooperation is essential if we are to meet our summer goal of referring 40,000 cases for litigation.

DEFENSE SUPPLIES TAPE FOR OPERATION CROSS-CHECK

As part of Operation Cross-Check, a project using a computer match of Federal employees against the GSL default file, the Department of Defense has recently supplied BSFA with a magnetic tape of the names of 10,203 military personnel who have defaulted on their loans. Of this number, 5,648 names remain on the active list. The rest are those who are in repayment or whose cases have been otherwise completed. This information will enable BSFA personnel to pursue these cases and have them resolved.

BSFA PREPARES TAPES FOR IRS SKIP-TRACING

Resumption of the IRS skip-tracing service is in full swing as BSFA prepares its fourth in a series of monthly tapes of GSL defaulted borrowers whose addresses need to be corrected.

Each regional office enters its requests for corrections into the computer system, and a tape of those names is produced and sent to IRS. When BSFA receives the new IRS addresses, the Bureau mails letters to defaulters requesting that they begin repayment immediately. IRS has asked the Bureau to take this action before releasing any addresses to a contractor. The tape of the new addresses is then sent to the On-Line Systems address file. On-Line prepares new address labels for the regions. The entire process takes approximately 3 1/2 months.

In March, more than 57,400 names were sent to IRS, and close to 37,700 addresses were returned. In April, more than 23,500 names were submitted, and 15,000 names were returned. The Bureau submitted 24,000 names for May. With IRS's help in tracking these addresses, it will be easier for the regions to locate defaulters and get them into repayment.

NEW GSL BILLING STATEMENT IN USE

OE's redesigned GSL billing statement is now being sent to all borrowers who have outstanding accounts. The new form, modeled after those used by most billing organizations, is a single sheet which can be separated at a perforated line. The borrower keeps the top half, which is a record of such information as the current balance, interest, amount due, and where to call for assistance with the account. The bottom half contains similar information on the individual's account and is to be returned to the appropriate regional office with payment.

Those statements that cannot be delivered because the borrower has moved and cannot be located will now be returned to the appropriate regional office. A newly designed envelope shows the regional office's return address through a small window in the upper left corner. When the statement is returned, the regional office will be able to track the borrower's address more easily. Formerly, undelivered statements were returned to an Arlington, Virginia address.

The new system will not only make billing easier but will enable regional offices to keep track of borrowers and thus help to reduce the number of delinquent accounts.

KORNFELD'S KORNER

I think the mid-point of the fiscal year is a good time to reflect on how far we have come in our efforts to improve loan collections. It is indeed satisfying to review our results. In March, we set a new collections record of $4.1 million. That figure brought the total collected for the first six months of FY 1979 to $17.7 million, nearly $2 million more than we collected during all of FY 1978. We are now collecting at the rate of $1 million per week - during FY 1978, we were not even collecting at the rate of $1 million per month. These satisfying results can be attributed to your efforts, and I am pleased with our progress.

Of course, we need to continue these efforts so that the number of unresolved accounts will be reduced even further. That is why it is so important to meet our summer goals. Some progress has been made, but considerably more work needs to be done. As of the end of April, 55 percent of the summer goals total had been met. There are only three months left to achieve that other 45 percent. There have been good results in the categories of "paid-in-full" (80 percent) and "in repayment" (88 percent), but "litigation" with only 17 percent and "write-offs" with 29 percent need more work. "Compromises," with only 14 percent of the target met, is the category that needs the most work. I have asked the Regional Administrators to consider providing awards to those who significantly increase their summer goal conversions.

Now is the time to redouble your efforts to achieve these goals. We must clear up those accounts!

Leo L Kornfeld

BOSTON

Collections are booming in Boston! April brought in more than $250,000 to the region, the highest total in the past 3 months. L. Shtasel (who also received the largest single payment of $2,986.64) won the top award with 521 points. J. McCann came in second with 432 points, and R. Rosengarton captured third with 389 points. R. Duggan's 308 payments was the largest number received by a single collector for the month.

While the total amount of collections was nearly $82,000 for February, Boston more than doubled its efforts in March, collecting $173,000.

February's top collector was William Reilly with 442 points, and George Harris second with 355 points. Mary Clifford captured the most payments (280), while Thomas Threlkeld had the highest single payment of $3,236.

In the March race, George Harris refused to give up and this time overtook first place with 360 points and $14,589. Tim Knause was second with 336 points and $12,421.

Tim Knause received the most payments with 309, and Johanna Bernstein had the highest single payment of $1,557.

Congratulations to the following individuals receiving promotions:

William Reilly, Team Supervisor
Robert Rubin, Team Supervisor
Thomas Threlkeld, Research Supervisor
Gail Murphy, Data Support Supervisor

NEW YORK

Vincent Miller and Aida Dias monopolized New York's April collection activity, as they walked off with the top prizes. Vincent was not only the number one collector with 464 points but received the most payments (126). Aida placed second with 353 points and received the highest single payment of $5,000. New York's total collections were approximately $87,000.

March's collection totals came to about $68,000. Vincent Miller again won first place with 404 points and also received the most payments (83). Second place winner Joe Gillespie had 284, points, and Hector Rodriguez had the highest single payment of $2,250.

Total collections for February amounted to $122,000. Pete Martinez was the sole award winner with 636 points. Pete also had the highest single payment ($2,837). Joe Gillespie received 257 payments, the highest quantity for the region.

PHILADELPHIA

Collections totalling approximately $187,400 were brought in during April, and the top award winners are Mary Powell with 310 points (Mary also received the most payments - 231) and Savanah Johnson with 273 points. The highest single payment of $2,000 was collected by Bernie Turné.

Philly's March total was even better - an all time high of $197,200. Winners in March were Diane Pelli (530 points), Mary Jones (464 points), and Joan Loan (455 points). Diane Pelli also had the largest single payment totalling $3,014.

Philly also had its highest number of "Paid in Fulls" in March.

February's collections totaled $150,700. High rollers for the month were Mary Jones (459 points), Art Weiss (431 points), and Diane Pelli (419 points). The highest single payment was $1,450 by John Hargadon. Joan Loan collected the most payments (301).

Philadelphia now has its full complement of collectors, so we can look forward to even higher collections in the coming months.

ATLANTA

As we went to press, Region IV had not yet computed its April collection totals or award winners.

In March, the region brought in about $437,000. Congratulations to the award winners:

1. Martha English, 474 points
2. Frank Kendrick, 442 points (also received the most payments, 288)
3. Gloria Robinson, 401 points
4. Deborah Cary, 400 points
5. Larry Clark, 395 points
6. Dorothy Brown, 386 points
7. Mary New, 379 points
8. Jackie Hughley, 370.70 points
9. Ophelia Davis, 370.48 points

Judy Cutson received the highest single payment of $2,000.

February's collection total was $404,063. Award winners were—

1. Sharon Jenkins, 491 points
2. Cynthia Brown, 452 points
3. Gloria Robinson, 443 points
4. Martha Kollen, 439 points
5. Steve Shauer, 433 points
6. Ophelia Davis, 426 points (Also had the most payments, 247)
7. Al Ordy, 410 points
8. Ann Leftwich, 394 points
9. Jackie Cannon, 391 points

Brenda Solomon had the highest single payment of $7,227.

CHICAGO

Region V has not yet compiled its April information, except for its total collection figure of $873,000. Chicago's goal for May is to be the second region to collect $1 million in a single month.

In March, the region brought in $729,000. The top collectors for the month were—

1. Linda Bell, 449 points (also received the most payments, 369)
2. Felton Alexander, 426 points
3. Martha Scott, 348 points
4. Reggie Williams, 325 points
5. Tom O'Connor/John Archer, 323 points
6. Jack Pazier, 305 points (also captured the highest single payment, $4,900)
7. Elliot Hardy, 303 points
8. Erie Winters, 294 points
9. Jim Castrees, 285 points

February's total collections came to $529,000. Congratulations to the award winners:

1. Jayne Hudson, 444 points
2. Jesse Adams/Reggie Williams, 438 points
3. Tom O'Connor, 436 points (also took the prize for highest single payment, $3,468)
4. Mitchell Rubinoff, 392 points (also had the most payments, 278)
5. Elliott Hardy, 377 points
6. Linda Bell, 374 points
7. Geoffrey Eisenmann, 370 points
8. Joseph Jointer, 366 points
9. James Castrees, 359 points

DALLAS

Congratulations to the April award winners:

1st Callie Simmons
2nd John Williams
3rd Ed Hopkins
4th Madge Virgin
5th Dennie Thompson

6th Jeannene Ellington
7th Jim Davis
8th Joe Ball
9th Reye Singleton

Total collections were nearly $397,700. The highest single payment was $3,150.64, collected by Lindsey Johnson. John Williams had the most payments (234).

March award winners were —

1st Richard Harms
2nd Gale Meadows
3rd Margaret Hamm
4th Lonnie Duncan
5th Lindsey Johnson

6th James Redd
7th Dennie Thompson
8th Barbara Haines
9th Lolita Giles

Total dollars collected amounted to $432,053. The highest single payment, $2,756.32, was collected by Frances Heartel. Olivia Williams had the most payments (221).

February's top collectors were —

1st Gale Meadows
2nd Olivia Williams
3rd Libbie Gutierrez
4th Chris Beal
5th Lonnie Duncan

6th Wanda Carter
7th Joe Ball
8th Lindsey Johnson
9th Diane Whitfield

Total collections came to approximately $374,400. Madge Virgin's $2,679.14 was the highest single payment, and Olivia Williams' 200 payments were the highest quantity for a single collector.

Region VI has made arrangements with numerous Federal and state agencies in a mass skip-trace effort to locate defaulters. Initial results have proven extremely beneficial. The Social Security Administration is providing name changes from its records, and several states in Region VI are providing access to their information. This includes tape matching from Texas, New Mexico, Oklahoma, and Louisiana Departments of Motor Vehicles as well as the Employment Commissions in Texas, New Mexico, and Louisiana. This widespread effort should provide current and useful information in locating defaulted borrowers.

On March 30, Region VI collections issued another press release covering location of defaulters, collection efforts, and litigation referrals, among other subjects. This again brought a positive response from radio stations as well as newspapers. The press handling was extremely positive as well as the reponses from defaulters.

KANSAS CITY

Kansas City's totals get better each month! April's collections amounted to nearly $220,800. Percy Kruse, with 192 points, was the month's full-time top collector. Mel Stewart received the highest single payment of $1,612.61 for the full-time category. Morris Henderson took first place among part-time employees with 168 points. Betty Bastel, a new employee, recieved the highest single payment ($5,000) in the part-time category.

March's totals were $183,840. Percy Kruse again won the top award in the full-time category with 224 points, and Louise Estes the part-time category award with 155 points. Marjorie Billings had the highest single payment in the part-time category, $3,500. Reginald Tony had the highest payment, $1,510, for the full-time category.

Region VII collected $141,438 during February, with Mel Stewart winning the top collector award, full-time category, with 434 points, and Louise Estes winning the award in the part-time category with 333 points. Louise also received the highest single payment award (part-time) by collecting $777. Clifton Cain received this award for the full-time category by collecting $1,091.

What won't our regions do to collect those loans! Region VII now has a whole unit full of ELFS as employees. Yes, that's right, ELFS not ELVES. Kansas City's group is not on loan from Santa, they're part of a new unit called E.L.F. - Eliminate Losses Forever. Mike Mullins, head ELF, and his staff are responsible for isolating accounts for litigation, locating students (skip-tracing), overseeing Code 81 (bad school) accounts, initiating small claims court actions, and recommending write-offs. In addition, Mike's duties involve predicting future system modifications in regional performance measures before those measures are implemented. [When this issue went to press, we were still trying to confirm the rumor that Mike and his staff also repair shoes overnight - Ed. note]

DENVER

Due to a substantial increase in new employees, awards were made on a team basis during February and March. Although we had no individual awards to report, we are sure the names of many of Denver's new employees will be appearing over the next few months. Welcome to the race!

We can report a total of $275,242 collected for February and $279,241 collected during March.

Denver collected approximately $337,250 for April. Ray Dawson, top collector for the month, had 455 points. Second-place winner Paul Fisco had 288 points, and Nancy Jencks came in third with 284 points.

Denver did not tabulate most or highest payments received.

A national review team audited the region during April. As a result, a number of organizational changes have been made that should increase collections productivity.

SAN FRANCISCO

For the second month in a row, San Francisco has smashed through the million-dollar barrier! Total collections for April are $1,340,000. Once again, as in March, this was a record for the Region. The top April award winners are:

Collector	Points	Team
C. Johnson	424	II
W. Chin	418	IX
S. Leppi	400	IX
C. Gunter*	394	VI
L. Rose*	394	VII
J. Dyer	383	V

*Tied for fourth

C. Gunter received the most payments (383), and J. Dyer received the highest single payment of $6,227.25.

March was the first month San Francisco went over the million-dollar mark after coming close the previous three months. The region finally made it with a total of $1,222,000. This exciting total was achieved by the hard work of all teams. In fact, the smallest amount generated by any one team was $99,000.

The points climbed dramatically as well. Team II had the biggest total, with an average of 284 per person. Team I followed with a 267 average. The top five winners for March were:

Collector	Points	Team
C. Gunter	616	VI
L. Rose	502	VIII
C. Johnson	490	II
W. Chin	475	IX
R. Latimer	446	X

Special commendations, citations, and general huzzahs are given to the Fearsome Five, who were among the top ten collectors for both February and March: Clay Gunter, Linda Rose, Cheryl Johnson, Wanda Chin, and Daryl Wong.

Total collections for February were $986,227. The highest single payment (received by Carieta Laws) was $8,975. Team VIII emerged from the points scramble with the winning average of 206 points per collector. The top five collectors for February were:

Collector	Points	Team
C. Laws	378	X
W. Chin	374	IX
C. Gunter	361	VI
I. Mouton	351	IX
L. Rose	343	VII

SEATTLE

If you thought the Kansas City ELF story was strange, here's a real scoop: mysterious, ferocious-looking bugs have been seen clinging to certain Seattle employees during the last few months. Actually, they are bug pins awarded to those employees who receive the highest single payment of the month. Those "bitten" three times by the collection bug get to turn in their pins for the coveted award for the deadly collection bite - a black widow spider pin. Richard Nelson was bitten in February and March with the highest single payments of $3,625 and $4,100, respectively. Patricia McLaughlin received the April bug award, with a high payment of $5,000.

In addition to these individual efforts, the entire region has continued to rake in the dough, with a total of $219,000 in collections for April. Some new collectors, planted in Seattle in March, bloomed in April - 3 out of 5 awards went to new collectors. New employees Roy Brown and Bill Clayton were numbers one and two in a close race. Roy squeaked by with 474 points to Bill's 473. Richard Nelson was third with 447 points. Richard also had the most payments for the month (280). Patricia McLaughlin who, as mentioned, received the month's highest single payment, is another new employee. Her $5,000 collection, by the way, is an all-time high for Seattle.

March was a banner month, as Seattle achieved an all-time collections high of $222,000. Richard Nelson was the number one collector with 613 points. Richard's 296 payments were the most for the month, and he received the hgihest payment of $4,100 (Richard seems to have caught collection fever from his bug bites). Shelley Hartman was the second place winner with 415 points, and Ray Hedwall's 402 points earned him third place.

Collecting more than $200,000 was only a dream for Seattle six months ago, but now the region's done it twice in a row. The next goal is the $500,000 mark.

March also brought a contest between the day team and the night team for most promises received during the month. After exchanging leads several times, the night team jumped ahead and into the winners' circle. Their prize - a steak dinner for all, day team included, paid for by the Spirit of Collections, supervisor Roger Lens. A good time was had by all.

February's totals were $153,000, and the sole award winner was - you guessed it - Richard Nelson with 417. Julie Nash had the most payments for the month (208).

ATTENTION ALL REPORTERS!

The deadline for the June issue of The Collection News is Thursday, June 7. All copy not in by that date will not be in the June issue.

Please remember to include the following basic information:

1. Total collections for the month
2. Award winners, including points
3. Who received the highest single payment and how much was it
4. Who received the most payments and how many were received

Don't forget to include all other news items about what your region is doing to improve collections.

When you use the mailbox to send your copy, make sure you code it either "LLX" or "RLO."

REMEMBER, JUNE 7!

Attachment No.6

SAMPLE OF SECOND PLACEMENT COLLECTIONS BY A COMMERCIAL AGENCY

All gross collections listed are on second placement accounts. They have been through a first placement agency as part of the standard due diligence procedure and the remainder of the uncollectable accounts were referred to DCS after they were three to ten years old. As evidenced from this report, the use of second placement agencies should be made a part of the requirements.

NAME OF INSTITUTION	TOTAL $ COLLECTED
City College of San Francisco	$139,721
Merritt College	27,778
City College of San Francisco (Nursing/NDSL)	10,873
De Anza College	46,343
California State University-San Jose	119,920
University of Nevada-Reno	13,347
California State University-Long Beach	38,003
California State University-Fresno	71,886
California State Polytechnic-Pomona	33,723
California State University-San Francisco	127,270
California State University-Sacramento	27,545
Ohlone College	11,330
California State University-Stanislaus	31,378
California State University-Dominguez Hills	6,203
California State University-Chico	57,200
California State University-Hayward	71,593
Eastern Washington State College	48,072
San Jose City College	56,065
California State University-San Bernardino	4,721
Pasadena City College	107,365
California State University-Bakersfield	4,781
California State University-Northridge	103,128
California State University-Fullerton	46,818
California State University-Los Angeles	54,541
University of California-Los Angeles	185,347
California State Polytechnic-San Luis Obispo	32,243
College of Marin	31,412
Contra Costa College	72,138
California State University-San Diego	44,759
University of California-Davis	20,854
California State University-Humboldt	9,377
University of California-Santa Cruz	15,535
Monterey Penninsula College	9,475
California State University-Sonoma	51,705
University of California-Irvine	10,861
Rio Hondo Community College	27,147
University of California-Berkeley	89,711
San Mateo Community College District	8,935
Whittier College	10,256
Azusa Pacific College	3,079
Ventura County Community College District	2,663
Los Rios Community College District	3,581
Mills College	4,606
University of Michigan	2,839
University of California-Santa Barbara	9,810
Loma Linda University	2,868
Diablo Valley College	1,578
California College of Arts & Crafts	7,593
University of San Francisco	61,795
West Valley College	10,716
University of the Pacific	131,677